

March 18, 2025



“Can Fin Homes Limited Conference Call”

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

Questioner: So, I'll just give you a background about myself and of course the purpose of the meeting I already gave it out. So, I lead the NBFC coverage at IIFL. I joined here now close to almost two years back, so I have been in that gradual ramp-up phase and given how the markets were last two years, it has been also, the focus has been divided in terms of say, you have IPOs and the deals and all, now I think finally there's some respite.

I have looked at the sector for 10 years, prior to this I was at Credit Suisse for eight years, was working with Ashish Gupta and so I've actually seen all the cycles and very much familiar with the space and the companies. I would say even back then, one of the gap for me used to be Can Fin, so back then I used to cover LIC housing, PNB housing, amongst the HFCs and then I think just hours had kind of come in and then of course in the last two years you have couple of other affordable housing finance companies coming in.

So fairly familiar but I would say would not be as much with Can Fin. Of course, I have done my work and all those things before reaching out, so that is I would say a brief background and intention and the idea is that now that we have some time over the next two to four months, I would say some respite, I would want to now expand on the HFCs.

Management: Sure, sure, absolutely. So, how do you want to, if you've done something, you can maybe go with Q&A or?

Questioner: Should we go with the Q&A?

Management: Unless you want to do some brief or something.

Questioner: I think if it's okay, like I of course know the, I would say segment and all those things, I have more pertinent questions but before that just would like to get a perspective of like I am cognizant of the time, the meetings and of course if need be I will have a maybe a follow-up and I can have it with whosoever you deem fit in terms of say more of the data or the analytical questions, if at all they are there, but if today we can focus more on the say medium to long term kind of a trajectory for the business.

Management: Sure. See, right now of course we are in the midst of two things, one is that we have a large focus in Karnataka and Telangana and where we are having some issues, one in Karnataka because of the e-Khata and Telangana because of the Hydra and subsequent slow down in the overall demand in the state. But having said that both the states at least Karnataka in the very near short term should come out of this at least not more than a quarter, it will prolong because in the corporation limit areas they have already started some work on the e-Khatas and now the speed has picked up.

So definitely there will be some solution coming for the rest of the places as well. In terms of Telangana of course it's a slightly longer issue I feel, but having said that we have already gone down from our peak levels which was there two years back and all to such a level that from here there is no further going down.

So from next year I expect a growth in Telangana as well. So having said that, the immediate mid-term this thing is to push on growth and not only mid-term even in the long term it's to push

on business and we would like to grow at a rate of about 1 or 2 percentage point about the market. So today the housing industry is growing around 12% to 14%.

Of course the affordable is growing a little at a slower pace and premium is going faster, but overall the segment that we are in is also in line with the overall market is around 12% to 14%. So we would like to grow around 15%. This year of course because of this setback we probably would have a growth of about 9% approximately the end of March.

This quarter whatever guidance we have given we are we appear to be very much on course for that. We have said that we would be doing a little in line with what we have done in Q4 last year. Somewhere around 2,300, 2,400 and we are in on course for that kind of a number compared to Q3 where we have done about INR150 crores per month in Karnataka.

We have now at least in Jan in fact crossed 200 marginally both the months.

Questioner: You have crossed INR200 crores?

Management: Per month in Karnataka in both the months and this month we should be crossing 250 as well. Already in this half the month has gone and we have already at 110 plus. So we should be crossing INR250 crores in Karnataka in this month as well. So now next year we are looking at a definite 20% growth because north west and Tamil Nadu zones are already growing at around 15 plus percentage, north and Tamil Nadu more than 20 also.

Karnataka if the e-Khata issue is resolved then next year we will definitely come back to 20% growth levels. So then most of the geographies are covered. Telangana as I said we have almost hit rock bottom points. So from here even if they do INR10-INR15 crores more we will be at [inaudible 0:05:18] So basically we are looking at a 20% growth in disbursements over in the next year.

Current year we have done about INR8,500 crores. So we should be targeting around 20% plus growth whereby we will require to achieve about 15% AUM growth will require about INR11,000 crores kind of disbursement next year.

So that will give us somewhere around INR5,200 to INR5,300 or somewhere there about as the net addition to the book because we have presently a rundown is around INR425 crores. INR425 crores per month is the rundown that we are having. So that comes to around closer to INR1,300 crores is what INR1,250 to INR1,300 crores is what we are experiencing in a quarter.

So that having said we will be therefore somewhere around INR5,200 to INR5,500 crores will be the rundown. And so if we do around close to INR11,000 crores we will be having INR5,000 crores plus addition to the book. So that should get us a growth of about closer to 15%.

And we are trying to or at least our intention is to continue and consistently build on that for which one is we have again restarted since last year the branch expansion. Second thing we have done is we have this introduced this internal sales and marketing team. So that is it is a small team but still at least it has helped us in one getting a little bit of APF approvals. This year we

should likely end somewhere around 70 to 75 APF approvals will be there with us. We started in June. So it is picking up.

So next year target is we should we are looking at somewhere around 250 projects to be approved. So totally from 75 we will increase it to 250. So net about 200 plus projects will be added because some obviously will get over.

So we will obviously there will be no bookings left in those projects. So we have to eliminate them. But roughly we expect to have about 250 kind of projects with us by the end of next financial year.

So APF approval our own marketing team has started contributing a little bit and branch expansion will also bring in about one or two percentage of Delta. So that's the kind of plan that we are having and the way the momentum has at least been expiring for Telangana and Karnataka the momentum at least in H1 was quite good and we were almost at a good healthy 18% growth if you see.

Questioner:

Right. So a couple of things over here right. If I take a say and again I'm not getting into the data keeping questions in terms of say Karnataka share and all those things I'll do that in a follow up call maybe with Mr. Joshi or Mr. [Rappu Roy 07:55] whatever you deem fit. Actually sorry in terms of I would say structural growth trajectory. Right. First of all you are talking of say internal teams second say the APF sorry basically approved financing projects right over there.

What is your counter share currently in the 75 projects that is there. Second if you look at say the internal team that you are setting up I understand it's a but again it's a relatively I would say if you look at in terms of size still a smaller team and then if you look at any of the other housing finance players including the banks who are there?

And I'm not just talking of the prime segment but the near prime category where we are in reliance on DSAs is a fact of the matter. And I understand that as a strategy we don't kind of pursue that very aggressively. Is that something which is precluding you to from say grow at 25% to 30% on a sustainable basis?

Management:

See it's not that we are against DSAs or we are trying to reduce the DSA share no. Right now 100% reliance only on the DSA sourcing channel is something we feel is not the right way to go. So we want to also have so like any competitor you see they are also having a DSA channel and they all have roughly 60% some like Home Fosters I think 75% plus somebody has 60% somebody has even lower.

The issue thing is everybody has multiple sourcing channels we have only one. That's what we are trying to expand we are trying to add a couple of sourcing channels one is direct sourcing and once our IT system is in place by end of this calendar year we also want to start a digital sourcing. So basically we want to have a mix where by 60% comes from DSA 20% from our own team 10% or something from our direct digital and then the 10% will be walk-ins repeat customers existing customers going for a top up loan and stuff like that.

Questioner: So again it's a related question over here imagine you are talking of growth we are seeing this time and again across players right whenever there is a tech change that is happening there is a disruption to growth and that kind of gets impacted. So why are we confident that will not be the case this time?

Management: No no we are not saying it will not happen. We have at least taken some steps to minimize that that's what we have been saying. What we have done is we have most of the tech transformation that are happening there is a separate LoS separate LMS a lot of people go with Salesforce that is the flavor of the season now but the LMS is different so now integration issues are also happening and in our case therefore we were very clear LOS and LMS has to be from the same vendor so at least that integration issue is resolved completely.

So that was one of the preconditions in our RFP and IBM which has won the contract is getting us Pennant which is LoS and LMS both from Pennant.

Questioner: This is the same software that Bajaj housing also uses?

Management: Bajaj is using and LIC is also using and in fact Bajaj has taken a 25% stake as well in Pennant. Correct. So we are getting also Pennant and therefore that is one way in which we are going to minimize the kind of issues that may that can crop up. The second issue is that there is a training or normally a lot of queries lot of support and all so in fact we had put that as part of our RFP therefore one of the modules that IBM is going to bring along is also a training module.

So these two things if they are managed well then the impact will be much less. Of course there is a third element which is according to me critical here which is resistance to change because our team has been there working on this module for 10, 12, 13 years. It was implemented in 2011.

By the time we go into this it will be '25 end. So we have done about 13 to 14 years people have got used to the current system, current UI, UX and they are the same flow of process everything. So that is something which will be one area where we will have to manage. We will have to work out something whereby you know we can.

So one additional thing we are doing now is some of the modules; HRMS, Treasury, Banking, all those things we are bringing it a little ahead. So that at least some of the modules can be managed earlier and we are already getting some hang of how it is done. And then we will take up the LoS, LMS. LoS, LMS also we will see. We have a couple of ideas on how we can minimize the impact or we can, familiarization programs can be done or something of that sort on the module because it is a tried and tested thing. And core housing product does not have much of...

Questioner: And volumes, they are not a high volume...

Management: Volume is one, but even in terms of the complexity it is there is no rocket science actually in the business. So the flow and everything is very similar. So once you get the hang of it, so some

familiarization programs also we have in mind. Let us see how we can work it out, whereby if we can expose the people beforehand itself on some trial modules and stuff like that, then maybe the familiarization will happen faster in which case the actual impact will be minimized.

Questioner: And in this new guidance you are taking into account all of this whatever to extend the impact would be?

Management: We are -- I know some impact will be there, but we are trying to see that it will be minimized. One, we are going for a big bank so it will not that -- the first 6 months at least the branches will not be impacted by this, except maybe some amount of training. The other thing is it is currently scheduled for November. We are trying to see if it can be slightly preponed. So if it comes in the first fortnight of October also if we can bring it, then what happens then we will get by Diwali we will be out of it and we can say after Diwali everything is straight business.

Questioner: Correct. Because almost 55%-60% of the business is in the second half of the year.

Management: Correct. That's what. Of course, we couldn't do before in the second quarter, but at least even in third quarter instead of November if we can bring it in the first fortnight of October then we will probably have a month or so and post Diwali we can go full-fledged into business, back into business. So, that's the plan.

Questioner: Secondly, again, you mentioned the pre-approved projects and those things. So in the existing, because I read that in one of the transcripts you mentioned that in the past you tried doing this. But it did not end up being as successful. Currently, the pilots are relatively more successful. First of all, what is the different approach you are taking? And second is that what is the counter share currently in the 75 projects and what you anticipate say in those 250 kind of projects?

Management: Sure. See, last year when we tried, we did it on a pilot basis with a couple of people we implemented. They were pulled out from the existing teams, okay. And till now we don't have a marketing set up, sales set up at all and so people were not used to that sales kind of orientation and all. So that was one thing.

Second thing is when we went to the market, we realized that APF projects it is not just that we go to the builder and they are willing to take. There were some deviations, some policy changes, some kind of special packages incentive, because even developers also when they want to tie up they also expect that some of their sales team should get something or they should get something for the leads that are shared. So all those things we were not prepared for it when we went in to be very frank.

So we had to tweak our policy, we had to change all those things and all and we have come out with a revised one. And second thing for the staffing, we also said we will have a dedicated separate team which will be headed by a separate national sales manager. So we didn't have any national sales or any head for it. It was all from within the branches they were doing it.

So now that we have created a separate team under national sales head, therefore, the focus is different, it is coming. We have also, as I said, changed our policy. Now we are also offering

something to our developers for the leads and everything, lead sharing. So now slowly it has picked up.

We started this in the month of June after our staffing and everything. And as far as possible, we are trying to get people from the market. So if somebody in the, this thing is there, we are getting lateral entries who are having sales experience who are in that local market doing this buy-ups. So those are the kind of people we are getting.

So that has now slowly the traction has come. As of December if you see, we were having only 35 projects. In the month of -- we started in June. So by September, we had just started. We had just about 15, 20-odd projects. By December, it was 35. Only in the Q4, it has further picked up.

So, now because the first -- cracking the first deal is most difficult, but once you do that then you can go to the next builder who we have already tied up, then they open up a little more. So that initial entry was the big issue. But once we did it, we were now able to do more. Now we have got some very good marquee names also where we have tied up with them; Godrej products, a couple of projects, Adani project, we have got in a project in with Prestige we are talking, so a couple of big names also when we have it is easier to kind of talk to other builders.

And now I would say 50% of the project you can say 1-2 cases have started coming. So as we proceed further, the builders also experience our service and experience the loans that are coming and all those things, the speed will pick up. So it will not be a very major thing, but 250 projects even if 2, 3 units come, we are talking about 750 at least loans should come from these approved projects.

Now also, in fact, what is happening is we are tied up with the projects but it is not that those project cases are only coming to us. The DSAs are also going and bringing the cases to us, which is logged in the DSA code. So, actually, the number of cases that is coming, maybe it could be more also. Not all would be logged under our team. Some would be logged by our DSAs also.

Questioner: Correct. And again, all of this -- are these even the projects where, say, the ticket sizes in our segment that we operate in, because some of these names and some of these projects they will be actually very high.

Management: Our ticket sizes are slightly bigger in the APF projects. Right now, it is in the range of about 35 lakhs. Some of them -- at least the projects that loans that we have got right now, the average ticket size is 35 lakhs in the APF projects. But as I said, some are good names. And these are all, obviously, the builders when you are tying up, it is not like -- till now, our majority of the business was done in the panchayat area, in the development external periphery areas of the cities and all. Obviously, the big builders or even the projects, most of them are also in the city areas where the ticket sizes are little higher.

Questioner: But even 35 lakhs if -- again, I am not using the Mumbai concept, I am a bit -- I wouldn't say I am an expert in the Karnataka and especially the Bangalore micro market, but still it is at a lower end with some of these developers whom they operate in.

Management: We have not tied up with Prestige here in Bangalore. Prestige is also coming with projects outside of Bangalore and now in other cities. There, the project ticket sizes are little, we have tied up.

Questioner: Okay. So, basically, those selected projects. Not the ones...

Management: Here the Prestige projects will not be less than INR2 crores.

Questioner: Exactly.

Management: Projects will not be less than INR2 crores. So here, obviously, it is our question, not our segment.

Questioner: Okay. So, basically, it is only those -- we are not basically venturing out of our segment, just marginally you are...

Management: Marginally, yes.

Questioner: And when you are going up in terms of say the yield and all, are we materially different from where we are at a portfolio level?

Management: In terms of the APF projects?

Questioner: APF, I think will be slightly lower in terms of the share itself.

Management: See, not exactly. Because see, when we are making an entry into the developer, each developer is already having a tie up with an SBA or HDFC or an ICICI or probably all of them also. So when we are entering and we are doing the tie up, what is our -- or what we are offering to them is that, okay, there may be some cases which may not be possible by those bigger banks.

Questioner: Those are the ones...

Management: Those maybe you can send to us. Maybe there is some deviation, age deviation we are giving up to the age of 70 years, they are giving up to 60, 65 only. So then those kind of some deviation, we can consider those things. So that is how we are doing. That's why we will get 1 or 2.

Questioner: Anyway that is not material to...

Management: And then we can always -- we can also charge a quarter percent, so it's not the -- but, yes, going forward when this picks up, the yield will be a little lower in this segment because obviously higher the ticket size, you will have to be a little more competitive. But yield wise, we are also slightly increasing our exposure in the SENP. We also slightly increased our LAP. We were at 5% LAP. Now it has gone up to almost 6%. We have become 6%. So it is a marginal increase, but still it helps.

SENP, we were in the beginning of like 2 years back when we laid out the strategy, it was 72% was salaried and 28% was self-employed. Now on the book, we have made it 70 and 30. That's because, incrementally, almost 40% of the business we are getting is SENP.

Questioner: And that you intend to keep on an incremental basis 40-60.

Management: Kind of, so that eventually we can go to...

Questioner: Go to 35.

Management: Because we are comfortable with 65-35.

Questioner: Okay. But at least then over the next 2, 3 years, it is going to be 60-40 on incremental basis.

Management: 60-40 on incremental basis you can say.

Questioner: Which is how you will reach there. One more thing is, again, on the product construct mix, right. So I understand the profile mix, and of course it is a conscious decision and you are anyway on incremental basis changing that. But between the home loan and the non-home loan piece, right, that's one area where there is a material difference between us and say all the other peers. What is the thought process over there and why like even say 5% to 7%? Why can't it be say a 20% in the non-home loan piece?

Management: That's what. So, right now, our non-home loan, including the CRE, our home loan was around 89%.

Questioner: 88% I think.

Management: Now it has almost equal to -- both put together is around 89% was there in Q3, FY24. Now it has come down to 87%.

Questioner: But we have [inaudible 0:23:40] of almost 25%, right?

Management: Yes, so the next 2 to 3 years, we intend to bring it down to 80-20.

Questioner: 80-20. On a book basis you mean?

Management: On a book basis, yes.

Questioner: Fair. So on incremental basis, it is probably going to be more on 30 to 40 scale only.

Management: Not 30, 40. But yes, at least it is a little more. Non-housing is a little more right now.

Questioner: Because on book basis if it has to move to 20, it will have to be through that. Does it then also mean give us a leeway, because a major portion of [BTE 0:24:11], of course, it is not just rates, it is also the top up. I think this will give us the leeway to use that or...?

Management: This is a completely different thing. Actually, we don't have any BTE in strategy as of now. We have just started with these kind of things. These are other, like BTE in strategy, a proper LAP strategy, doing something for appraised income and assessed income product. These are all some low-hanging fruit or these are all some kind of things which are yet not explored by us. We've not even yet designed a kind of a strategy for BTEs.

Questioner: But then when you intend to on incremental basis say reach there, what is the change that you are doing because I understand it will require a different assessment, different underwriting, different process.

Management: Not really, because we have still not changed our policy. Because earlier also we were doing, I mean we were only doing documented income. Even in SENP, we are only taking up those cases where they are filing returns. Even now, it is the same. Only thing is, earlier LAP, for example, we were not offering LAP for new customers. We have slightly opened that up a little bit. That is one change we have done. Otherwise, there is not much of a change in the appraisal parameters.

Earlier also, we were doing documented. Now also we are doing documented. Only thing is some picking in terms of the sanctioning powers, in terms of opening up LAP for new customers also. Those kind of things we have done. Offer a scheme for top up for existing customers who are having a good prepayment track record. Those kind of things we are just doing so that we can do a little more of top up, a little more of LAP.

Now plot loans we are doing, but now plot loans is a very small percentage, it was 1% or something only. Now I think -- so that also is...

Questioner: Because it is not just a plot plus construction.

Management: Plot plus construction is pure, it is considered under housing. Plot is under non-housing. If it is only plot, it is non-housing. Though we do not expect to do more than 2% or something, even now I think it is 1% or something only.

Questioner: Basically, it is a combination of those things which we do. And I will probably discuss the numbers in terms of the yields of back book incremental probably later on. Do not want to waste your time in that. The other piece over here is that, is there a thought process to go down in terms of the segment? Because that is something that is going to be profitability accretive.

Management: Correct. That is true. But we have as of now not done, planned that. In fact, we have only gone up because right from the time I joined, I have been clearly saying that I expect the affordable housing segment to kind of slow down. I expect a slowdown in the affordable housing segment mainly because the CLSS was withdrawn in 2021. And the other also was 2021, MIG was there. Thereafter it was 22, even the EWS and LIG. That was also withdrawn.

So I said, whatever is going on now is only the inertia effect. In the pipeline of projects which are yet to have some inventory to be sold out, only those are going on. Otherwise, supply side there is going to be a slowdown. That is what I have been saying from the time I have joined and I stick to the stand even now.

That is why we said that rather than focus more on affordable which is anyways slowing down, might as well look at a slightly from 22 lakhs to 25 lakhs or 27 lakhs, we will look at that segment. Whenever the market opens up, if tomorrow the PMAY picks up and we have a good amount of supply coming in at that time, we are open to looking at that.

The second portion of your question as to whether we are looking at affordable because getting more accretive is also the affordable assessed income segment. Now assessed income segment, if we have to do, then I think we will first have to develop a kind of internal training because if you see our people for 35, 37 years are tuned to only doing documented income. So we will have to have a separate skill set for it, appraisal mechanism, proper review.

Questioner: Different process itself..

Management: Absolutely. So that is where I think if we have to do that, it will be a little longer term kind of a thing we will have to look at.

Questioner: But is there a thought process behind?

Management: We are open to it, but there are other things like little bit of self-employment, little bit of...

Questioner: Basically you are better off doing that.

Management: So those are the quicker, lower hanging fruits. This is a longer term project we will have to take up of doing these kind of things. In fact, we did come out with a project and got the approval of the board also for an appraised income product. But unfortunately, that was just with the time when the RBI came down and clamped down on the personal loans and this thing.

So we said better not to launch it right now. We have got the approval of the board, but we have not launched it. Because otherwise what would have happened? All that people would have come here only. We said let us not touch this and then we could have ended up making mistakes. So we said let us hold on to it.

The approval is already in hand. When the time is right, we will at that time launch that product. So that is a little bit of a thing where we are looking at not entirely on the appraised income segment, but something to do with people where they have UPI credits in their bank account, we have GST returns. So at least there is a little more proper proof. It may not be documented, they may not be filing returns or anything, but at least there is some proof to assess it in a better way.

Questioner: But it is I think going to be a very long term and a gestation project. It probably will not bear fruits over the next three years also.

Management: It may not be. Even if in the next three years we do, I think we will say maximum INR100 crores we will touch which is not going to move the needle much.

Questioner: Fair enough. And kind of slightly related to this, if we then look at say right now we have the benefit of the parentage and we have October 4th circular which is there. I understand no one knows and no one can read regulator's bind. But it is a binary event and say for instance, hypothetically, if the circular stands what it is currently the draft which is there, of course with an elongated time frame.

First of all, a, there will be an implication in terms of your credit ratings. If that happens, then our cost of funds will materially change. And then by definition, at least I wouldn't even say

protect, but just to mitigate that impact, we will have to go down this entire segment. And as we discussed, this is a long gestation kind of a project. So basically, how do we kind of think say from a 5 year perspective, if I have to think about it, right?

Management:

See, I will tell you what. One is, appraised income segment, but we also have LAP which was not there with us till 2 years back. We have just opened LAP for new customers also. And we have a good runway available because while most other players are almost hitting their 60% or 40% cap of our non-housing segment, we still have a huge amount of scope available to increase our LAP or to increase our top up loans or things like that, where we have little more yield equity.

So we have that scope to do that, which if at all in the eventuality something happens, we can always look at that as a short term, 3 years, 2, 3 years, 5 years kind of a thing to push it before we are able to build a good, strong potential to do the appraised income cases.

Questioner:

And in your opinion, because of course it is going to be an autonomous journey since then, how do you see this actually panning out, right? Because there is another opinion that potentially there may be an exemption for the housing finance subsidiaries and the credit card subsidiaries.

Management:

That is what in fact that Circular also says. In one place, you see the Circular says that banks can have subsidiaries for certain activities such as so and so and so and housing.

Questioner:

No, but that is as long as there is not an overlap.

Management:

So that is the way, the interpretation is both ways. You know, that is also one thing which was sought as an explanation that here you are saying this or does that mean even for overlap this is possible, things like that. So and of course, even otherwise, if at all that has to happen, it will be something which will hit the industry.

So a lot of players are there who will be somewhere impacted because of this. PNB is there. ICICI Home Finance is there. You have -- and not only that, if you see, there are other players who are having same parentage. Like for example, RBI, when Warburg Pincus was intended to buy Sriram, they said you have to exit from HFFC or at least reduce your stake.

At the same time, they have, you see, beverage capital has in Naptas as well as in India Shelter. Multiples was already having Vastu. They had already invested in Ummeed also. I think recently they applied and they got a permission to invest in Shubham. So that idea or the mind is not -- what actually is in their mind, we do not know.

Questioner:

It may actually end up in a different shape and form and the intention is probably, I understand, some other segment of entities may not be necessarily these entities.

Management:

Possible, that is what.

Questioner:

Fair enough. In terms of, if I have to say, both from an organization and the culture and that perspective, how do you see this evolving? Because you are also filling into the shoes, I would say, only the second external CEO, right? And many times those things kind of can -- investors

need visibility in terms of, say, how this is going to pan out, say from a 3 year, 5 year perspective, because that will ensure that there is a continuity of thought process and a continuity of strategy.

In some of the places we have seen, if that is not the case, it's a very different kind of outcome. So how to basically approach this?

Management:

See, first of all, I didn't come with the dream or with any assurance that it will be privatized, to be very frank. That is point number one. Having said that, we have recently come out with an ESOP plan for employees, senior level employees, but at least it has come. So that is, I mean, that is one thing.

Even otherwise, if you see some of the changes that have happened in terms of the policy, in terms of certain things, that is always, there is a clear direction in which the company has been moving towards giving a lot more. You know, of course, there is a PSU or a parent, PSU bank as a parent, but still in terms of the thought process, in terms of the flexibility, in terms of the, what do you call, if you see the last 6 years, 5 years at least, the company has not had any kind of listen from the parent coming in.

Earlier, the MDs were always from Canara Bank. But in the last 5 years, there is no such thing. There was one opportunity where after the first experiment itself, there was a chance to have gone back to the old system, but the board did not and the parent did not. So that at least is a, I think is an indication that, how long is long enough, you don't know, but at least you have one chance and they didn't go for it.

So I think that intention is there and on and off, you know, I think questions have come at the earnings calls at Canara Bank also. They have said that, yes, there is a valuation possibility. So we are holding on to it. So at our opportune time, if it all is there, that's a decision they have to take.

Questioner:

But if they take, sir, then it will have business implications for us.

Management:

You see, the market is good enough, I mean, and in terms of the underlying asset, if you see the asset is strong enough, whatever has been built, for the last 10 plus years, there has been not one instance where the company has crossed a gross NPA of 1% also. Not even in a quarterly result or anything.

The second thing, if you look at the cost structure, if you look at the, I mean, opex we are among the lowest in terms of the cost to income ratio. In terms of the credit cost also it is there. The conservative approach has always been there irrespective of whether it was owned here or it was owned or the MD came from the industry.

The thought process of having a conservative lending practices has always been there. So, there is absolutely continuity in that. Now, it is just that the rating agencies are not comfortable giving a kind of a name. But then having said that, there is no, I mean, fundamentally if you see there is a company, it cannot...

Questioner: No, I agree sir, but unfortunately lending is a business and more so the segment that we are in is a business, the highest cost item is something which is not in our control, right?

Management: No, but again that is the case, one rating, one notch downgrade will also be resulting in what about 20 to 25 bps max impact in terms of our cost of borrowing. And that also...

Questioner: Is that all?

Management: Yes, because when we were a AA Plus rated company and when we moved to a AAA, the borrowing costs came down to about 15 bps.

Questioner: No, but sir, that parentage angle was still there. Like, I will give you an example. Like, look at AA plus, two entities, Shriram Finance and [Inaudible-38:03] Finance.

Management: That is what I am saying. No, so it was 15 bps only, but I am saying 25 bps. When we actually moved from a AA plus to a AAA, both with parentage, the benefit in cost was 15 bps. But I am saying without a parentage, you can say 25 bps, not back to 15, but 25 also if you see. But whatever is the borrowing on our books, fixed rate and whatever, of course, it will continue and it will be there, yes.

Questioner: I will just see if any other major question I have. Sir, basically in terms of, again, not getting into the numbers and I actually sincerely request that you, of course, like help set up that one hour conversation just I would say on numbers and I will do that.

Management: That can also, obviously, not a problem. In fact, anyway, just a 10-day window now, not improbably, after that we will go into the silent period, we will not be able to talk. After that, the earnings call, so it is completely detailed everything is there and we can have that a little more in detail.

Questioner: But probably if, I do not know whether, not you, but the team, Mr. Apoorva or Mr. Prashant will have time before the year ends. But if it is there, then I will want to, so that you do not breach that silent period kind of thing.

Management: I mean, whatever is there, obviously, silent period will not, so I think 30th or something will start.

Management: 1st of April, we will be closing.

Management: No, it is one day before now. Yes.

Questioner: 30th.

Management: Yes, 30th we will close. So 30th. Okay. Correct. 30th is a Sunday.

Questioner: So, if it is possible, I will do that, but in terms of when you say the growth guidance and all, I am also mindful that now we are in an interest rate cut cycle scenario. So, A on growth, B then on the margins. So, when I talk of growth, basically, first of all, what is the BT out pressure that

you typically have and why will that not accelerate in a rate cut scenario? Because it is a competitive market out there, right?

Management:

Sure. Two things. One, you know, right now we are not seeing much of a pressure because the competition which is more, which has been, weaning our loans out, that is particularly Bajaj, LICHL, PNBHL, they have also not reduced the rates. So, today there is no advantage. It is a status quo amongst these people. Only people who have reduced the rate are the nationalized banks. Okay.

And that because they are bound by the EBLR rate. So, that is where they have also reduced the rate. But that is not the segment which actually picks up our loans. So, therefore, we are still not, that is one. The second point is that we have also moved to a quarterly reset, we also changed the policy to quarterly reset. So, now whatever benefit we experience on our liability side, we will also pass on to our customers.

So, that way, you know, there may be a little bit of a one or two months which obviously the customers do not mind. As long as, we have, we demonstrate that we are actually passing on the benefit to the customers, I think they will not mind for a one month wait to completely transfer the loan out.

Questioner:

Yes, correct. Of course, because there is a, it is a big hassle.

Management:

It is a hassle plus there is a cost involved, there is appraisal, there is again processing fee and all those kind of things are always there. Now, and one more thing which we need to actually be careful is, whether the incremental cost of borrowing goes down. Otherwise, if you look at today's scenario, the deposit rates have not come down. But because banks are bound, are compelled to reduce because of the EBLR regime.

Questioner:

So, they are increasing the MCLR rates?

Management:

So, what has happened is here, the rates are not coming down technically and banks are very likely to be coming under pressure if further there are two rate cuts, two more rate cuts and so the entire retail book, their yield will come down.

Questioner:

So, then they will not pass on that benefit to you?

Management:

To us also, but the deposits, their rates are also not going to come down.

Questioner:

Yes, fair enough. So, they would want to, but because structurally the deposit growth is lagging and that is one piece where even regulator is behind them. Of course, that pressure has now...

Management:

They would rather lend at, I mean, obviously, I do not know whether they will take a step like that, but otherwise it does not make sense to lend where they are losing money. Likelihood, they are likely to lend more to the corporates.

Questioner:

So, yes, I get your point and what you are saying, I think I agree with you, is on the competitive end, which is where it will play out. But the other aspect is then on your liability side, which is also the corporate, right? They will not be passing on that?

Management: Yes. So, what we have done is at least we have moved entirely on a liability side wherever bank borrowers are concerned.

Questioner: To the repo. But that spread, have banks increased that?

Management: Incrementally, they will obviously not maybe pass on 25 bps to us. Earlier if they were giving at repo plus say 160 bps, now probably they will say repo plus 170 bps. So, while the repo rate has come down by 25 bps, the benefit on our liability side will not be probably more than, as of today we are talking about 5 bps to 7 bps, but otherwise about 10 bps to 15 bps.

Questioner: For a 50 bps rate cut...

Management: 25 bps rate cut.

Questioner: For 25, eventually you are saying?

Management: Right now the 25 bps rate cut, eventually the benefit which will accrue to us may not be more than 15 bps.

Questioner: Correct. But...

Management: This quarter it will be only 5 bps to 7 bps because it has a little of the reduction will be offset by the higher cost NCDs and CPs that we have raised in this quarter. Obviously, in Q1 the liquidity will ease out.

Questioner: It will ease out.

Management: So, therefore the...

Questioner: Money market rates will be...

Management: Will be a little better. We might be able to reprice the CPs at a lower rate. So, that is different.

Questioner: In terms of the borrowing mix, how is your say strategy going to be more from a structural perspective? Because historically we have seen, [pre-LN 0:44:13] FS it was different. Then of course during that period we then moved majorly to banks.

I would say 50%-60% was there. And then again we came down since last one year, the banks piece. And ideally I would have thought the other way around because if we are going to say go into a rate cut kind of an environment, you would want more of a floating rate liability.

Of course, but on the other hand, you had a nudge from the regulator to reduce the dependence and all. So, I understand that debt also played a role. So, from here on how will the mix kind of evolve?

Management: This guideline obviously is not getting withdrawn. So, 25% of our incremental borrowing will have to be from market linked instruments which means NCDs for us.

Questioner: But that is a SEBI-LN. That has been there for a very long time.

Management: So, 21 onwards. That is what I am saying. So, that guideline being there. So, we will have to incrementally get 25% of our incremental borrowing from market. But having said that, what has happened structurally after the ILFS issue is that one, overall gearing has come down.

So, earlier where we were, we enjoyed about 10-11x gearing. We are now at around closer to 7. Of course, I think 7.5 also is something we can go. So, there is a little bit of scope available to borrow without having to impact our this thing. So, that scope is there. But presently when we are growing at a rate lower than the rate at which our ROE is there, therefore our gearing is coming down.

That is why our rates are coming down. But in the other scenario also, there is a scope to further take it up to around 7.5, 7.75 today. Because up to 8x, I think rating agencies are comfortable. Only when we breach 8, probably they will be a little worried in the present scenario. So, that is one thing. But other thing is, on the CPs, we have reduced our reliance.

Earlier, we used to do 10%-15% also CPs. Now, we are managing it at 6%-7% which effectively works out to around one quarter's disbursement only. That is the only amount we are keeping as CPs.

Questioner: Got it.

Management: So, therefore, long term, I think, why long term? Even medium term, I would say probably you can say 25% of the borrowings would be from NCBs. About NHB is something which will come down because there is a limit to which NHB can also give to us.

Now, we are already large enough. So, they will obviously, they have more mouths to feed. So, they will want to obviously distribute it. So, our capacity to raise from NHB will reduce. Today, it is around 19%-20%. Probably, you can see in the next near term, it will come down to around 15%.

Questioner: That will also have cost implications for you, right? So, first of all, out of this 19%, on a book basis, I know incrementally every year that formula changes between the affordable housing and the normal refinance window. But on a book basis, what is that mix for you?

Management: In terms of what? Fixed earn variable or in terms of?

Questioner: The affordable and the refinance, normal refinance. Because the cost structure is different?

Management: It is still recently when they were giving, they were giving in the ratio 1:1.

Questioner: That is last year?

Management: Last to last year. Last year, they increased it to 1:5 and therefore, the cost increased so much that we did not raise from NHB. This year again, they brought it down to 1:3. So, earlier it used to be almost 1:1. So, practically, you can say almost 40% probably would be fixed on the NHB borrowing side.

Questioner: Basically, you are saying that 5, 5.5% affordable?

Management: Affordable, yes.

Questioner: Fair enough. And then again, this will also have some implications, may not be at a spread in the NIM level, but more in terms of the yields as directionally if this year it has increased, then because you also have to bring down the yields of that corresponding portfolio, right? Or you will use it for when you have a BTE out kind of a pressure?

Management: No, I did not mean that.

Questioner: Because the affordable housing...

Management: No, that is a back-to-back. So, if the underlying security gets repaid, you have to give it back as a half yearly basis back to NHB.

Questioner: No, no. I mean to say when you get that under the affordable housing window and the allocation, the yields on that portfolio, the matching thing, it is for on lending, right?

Management: Correct.

Questioner: So, there is a cap of 500 bps, right?

Management: No, it has been varying. It was 3.5, it was 4.5. I do not think it has crossed 4.5% spread.

Questioner: Basically, the GSec plus, I think it was.

Management: So, I guess lowest we have got would be at 4.5%. 4.5% plus 4.5%, so that would be a cap of 9%. So, today we are way above it. So, I do not think even if there are two more rate cuts, it is going to impact that particular sale, loans.

Questioner: And overall NHB you mentioned from 18%-19%, it will come down to around 12%-13%.

Management: Closer to 15% in the next 2-3 years and then probably, yes.

Questioner: Fair enough. And of course, you will not have any visibility on the mix of it because it is a thing that NHB will decide.

Management: But going forward if you look at it, the more NCD issues we are coming out with, our competitiveness in the NCD market is also improving because there are more papers in the market, there is more liquidity, more transactions happening. So, that is also giving a little comfort. So, I guess going forward that will, which today is NCDs are the costliest for us.

Lowest would be NHB followed by banks and then FCPs of course would be before banks. But then we have NCDs as the highest cost. Tomorrow, the way it is moving, we have had some very competitive fundraising through NCDs also in that reason because our transactions have increased.

Questioner: Got it. In terms of, say from an industry perspective, there have been a couple of, I would say, overhangs, of course they have not materialized. Last year, there was this risk that there will be

an EBLR kind of a linking for the non-banks also. In your mind, is that something now completely off the table or how is it?

Management:

I don't think that topic should come back because frankly speaking, this was discussed even when it came for banks. But at that time, that is when they said all variable rate loans have to be without procurement charges. So that rather than moving to EBLR-linked pricing, let the customer decide where they want to take a loan from. So, I think that is already a decided case at that point in time.

So, I don't expect that it will be revisited, at least not in the near future. But why I am saying is because the regulators have also been aggressively checking and verifying if pre-payment charges. Pre-payment charges for one.

They have also been checking whether the NBFCs and HFCs are having some restrictive practices in disallowing customers from moving out, like not handing over their list of documents and all those kind of things. That also they are monitoring. Which means they are very clear that we have taken a call, now you just implement it, otherwise we will have to take.

Now obviously, if NBFCs and HFCs don't follow the line, follow the rule, then they may have to step in and do it. Then it will be...

Questioner:

A carrot and stick kind of approach.

Management:

Absolutely. If NBFCs and HFCs don't behave themselves, obviously RBI can always do that.

Questioner:

But, at least, in your mind now because last year it even appeared in the annual report of RBI, right?

Management:

I agree. And RBI has given an option with the clear mandate that all lenders should therefore draw the line. And one is in terms of prepayment they should not charge and two in terms of prepayment if the customer wants, then they should allow free mobility should be there from one lender to the other. If that is not happening, then obviously they will not continue, then the rules can change.

Questioner:

Sir, just shifting focus now on to the asset quality piece. I understand that, of course, this quarter there was this angle of that fees and showing up in the SMA buckets for us. But at an industry level also when I see the data, the bureau data, just actually in fact yesterday only I published that report, in the ticket size, in the segment that we are operating in, we are seeing that the early delinquencies are now rising.

So if I look at the 5 lakh to 35 lakh kind of ticket size segment, of course it's a wider range and not necessarily just you, but we saw that 30 to 90 bucket delinquencies moved up by 20 bps sequentially in the December quarter. Is this something that is structural or just a temporary phenomenon because when I then look at on a bottom up basis, all of the individual affordable housing players and even for us adjusted for that fees charges, we are seeing that there was a SMA bucket slippage across the industry. So what is your take on this?

- Management:** See, I do agree to some extent because my conversations with some colleagues in the industry, particularly affordable housing that there was a little bit of this, particularly when the RBI came out with this thing on personal loans and MFIs. At that time, a little bit of the SMA 0 increase has been witnessed, which I agree, that is what a lot of this, but in our case the fact that this INR850 rupees, the cheque bounce charges itself, if I exclude that, that 2,493 was the, INR2,493 crores was the total SMA 0.
- Questioner:** It comes down to around INR1,800 odd crores.
- Management:** It comes down to below that. That was the figure. INR770 crores was exactly that amount, which was up to 850 mainly because of the cheque bounce charges, which earlier we would have managed because we had some customers.
- Questioner:** By one month advance...
- Management:** Up to one month EMI it was there in the books. Only above one month or something, we were adjusting as a prepayment. So a little bit of balance was always there and it would not show up because we could always adjust from there. So that is one thing. But yes, some of the affordable players, definitely our conversations did show that. In our case, there is very little of customers who were there in the MFI space because our ticket size is 25 lakhs.
- We are talking about customers in the 60,000 to 1 lakh income segment. Obviously, that segment is not in the MFI, but personal loans, yes. We do not monitor at least, I mean, we do monitor at the time of onboarding, but subsequent to that on annual kind of thing we do not see how many other subsequently loans they have taken, payoffs they have drawn and things like that.
- But so far, at least, our immediate thing is to work on that INR770 crores and bring it down and we will also. Otherwise we would not - the number is not looking very large. It is in line with what we used to experience earlier if I remember correctly INR770 crores.
- Questioner:** There is some increase, I would say in terms of percentage also, but again, not of course as big and even at an industry level, I do not think it is a very big number. But it is - when you see a kind of a deviation, you wonder whether that is a start of a trend or whether this is an aberration and that is where I think this was more coming from?
- Management:** No I would be keen to read that note that you mentioned.
- Questioner:** I will share that with you. In fact, actually, I did not have your details. I will add it to my distribution list as well. Again, the other piece and related, just you can do a time check, what is the time that you have.
- Management:** That's okay. No issue.
- Questioner:** The other now related aspect to this is, see now from an investor's standpoint, I would say 3 years or 5 years back, it was a different lens when you were looking at a housing finance company. You did not have, say a pure play breed of affordable housing finance companies.

Well, it is a completely different process because the economics of it is different. You can afford a certain way of functioning and which is also required for your customer base.

For us, how is the process and here again, it is more a function of my lack of, I would say, familiarity with Can Fin. How is the process for us, say, right from sourcing to the underwriting and lastly also the post-disbursement monitoring. As you mentioned, I think a good part about the mortgage business is you do not have to prepare for the 20 cases out of 100 cases, but you have to prepare for 5 cases at max that too probably at a very high level.

So, post-disbursement monitoring has not been that, I would say, focused for the industry as such in general. Is there something across all this, first of all, if you can explain and secondly any thought process over there as you incrementally move into this self-employed segment?

Management:

See, first thing in terms of our model, we have a branch-led model. Unlike a lot of other companies who have come, even the affordable smaller companies, they are more into a vertical-based, verticalized model whereas we are still on the branch model, which is like what the HDFC and the Gruh and everybody used to have. So, our own team which is there in the branch is doing the sourcing, is doing the customer servicing, is doing the appraisal, it is doing the disbursement and post-disbursement recovery as well.

And what we have done in the last 24 months, because we were increasing our SENP exposure is that we have now got a department called Credit Review Monitoring Department. So, every case that is sanctioned by the branch is reviewed by the CRM department. So, the CRM department basically checks the policies followed, whether the process has been there, the correct scheme selection has happened, whether the documents that are there is any discrepancy, deviation or anything in that.

Like, for example, if it is a segment which is salaried, whether the credits are reflecting in the bank statement, whether the bank statements have been collected. So, all those kinds of entire thing that double checking is happening. So, there is a new department which is also doing 100% of the cases are being verified.

Second thing is in terms of ITR and everything, we have tied up with Karza. So, the customers, ITRs and everything are directly downloading from the portal and checking whether it is the correct return or not. So, that those kind of chances where technology can help us eliminate these kind of manipulation in the customer data or the income data or anything, those are being eliminated that we have tried to incorporate and we have put that in place.

As regards post-disbursement monitoring, I think the first and the most important check is the NACH. How much is NACH and what is the NACH bounce rate? Because in our case, it is not a kind of a repeat case. Now hardly customers come for a repeat because once they take a house, it is usually the segment that we cater to is the - for them the first house itself is a kind of a dream house. They spend a lifetime trying to build that.

So, for them it is chances of them going for a second house or multiple house or things like that is much less. So, once that is there, the NACH bounce rate is what we have to most closely

monitor. By and large, yes, we have been a little rudimentary in that and I can accept - I will accept because what it says every month what is the NACH bounce rate.

Now whether the same customers are bouncing again, whether the flow is too much, that kind of further analysis, there is definitely scope which we keep on doing and keep on implementing and improving as we move forward. But as of now, our NACH bounce rates have been in the range of what, I mean, NACH bounce rates have been in the range of about 9%, 8% to 9%.

Questioner: 8% to 9%. Okay. Fair enough. In terms of the monitoring piece, the centralized monitoring piece that you mentioned, there is more of a fraud check. The underwriting piece, the conversation with the customer, although are still branch-led?

Management: Since we do not have an appraised income segment, it is only documented income. So, we do not need to have that. The customer interaction and everything is not there. CBIL, they are able to see. The bank statements they are able to see. The income document, whether it is a salary slip or ITR, they are able to see. ITRs are directly downloaded from the net. So, that is able to this. KYC verification is Aadhaar verified through again with Karza.

Time verification again done through Karza directly by the ITR. So, all those things, once it is process-driven and if everything is available, then I think 90% of the verification is done. It is the appraised income where we have to do the business-wide site verification, whether the stock is there or not, whether the transactions are genuine, whether there is a fluctuation to the business, whether there is an over-borrowing in the last few months, sales are down. So, those things have to be separately seen, but that we do not do that segment as of now.

Questioner: So, when you say salary also, I am then presuming that we are talking of the formal salary, not the informal salaried at all?

Management: We do have, yes, you can say formal salaried only because the informal salaried would be people who are getting in cash and all. Obviously, we are not doing that. We have a very, very small percentage. I think all that, I do not think would be more than one or two percentage for us.

Questioner: Got it.

Management: Because we have a small something called NIP product, which is about up to 10 lakhs we can give. There is no cash salary, but it is a very small amount.

Questioner: Got it. And when you mentioned that you do this appraised income, sorry basically ITR and the declared income kind of thing, You look at, of course, the FOIR and all those other parameters?

Management: Obviously.

Questioner: The existing loans and all those things?

Management: Yes, obviously.

Questioner: You account for that. There is no exclusion that you exclude a gold loan and all those things?

Management: No. So, obviously, we all have board approved policies as to if the EMI is less than six months or less than one year, you can say that it is not going to be there. Because our house also takes about 36 months to construct.

Questioner: Correct.

Management: At least 18 months. So, by the time the full EMI commences, that loan would be over.

Questioner: Got it.

Management: So, 12 months exclusion is there.

Questioner: Fair enough. Just, I would say more from a medium term perspective, banks is one thing. Of course, we, as of now, don't have plans of going down. But in the segment that we are in, do you see, anticipate increased competitive pressures not from banks as much, maybe at the margin, but more from, say, SFBs, more from the larger NBFCs or the larger HFCs? Because everyone is talking of coming down, but like if you speak with Bajaj Housing, they have clear plans to come down, but they are not going to go down directly to, say, the affordable housing?

Management: No, they did. In fact, they have come up with something like 10 lakh loans also. For that, they have a separate big bank.

Questioner: Yes, they have a vertical, but...

Management: It's not so far, I mean, we have not heard much from them.

Questioner: So, they are piloting. So, I was speaking with Atul and Gaurav last year. So, we were also the bankers for that, but the idea for them and whether you look at them or, say, an LIC housing, of course, the approach will be very different. But, say, if I look at Bajaj Housing, they have first plans to get into the segment where we currently operate in because from their perspective, it is still a margin and an ROA accretive segment.

And then, basically, eventually go down. Because while the segment, say, the affordable housing segment is very lucrative, even if you, say, lend at their scale and at their cost of funds, at, say, 200 bps lower than the existing players, they can potentially end up making higher ROEs than them, but it's not a segment that can be materially scaled up beyond a point.

So, in their construct, it may not ever form, say, a very big portion, but near prime is a segment, is something which also gives you that criticality in terms of the scale. So, the journey is going to be through that. So, first you will come here and then, basically, eventually go there. Of course, the approach is, I would say, more of a hybrid approach someone like an Aadhaar who has that.

That for a salaried customer, it is a straight pass-through. Just as we have a centralized kind of thing. Accordingly, for a self-employed, you have a decentralized approach, which is there. Ultimately, the model of an Aadhaar. So, from that perspective, whether you look at them, LIC, all those guys, they are definitely coming down. So, do you see a competitive scenario and an angle playing out?

Management: See, that possibility and that thing has always been there. They can always come. But by and large, mostly if you see, be it the HDFC, even Axis tried Asha, HDFC tried Reach and Star. Smaller players tried to move up the ladder. So far in the 35-37, I can say, years of business of housing finance, players have not been able to work in multiple segments. Experiments have not, so far, been successful.

I wish them all the luck. But so far, nobody has been able to crack that problem so far. One is, the model is very different across, be it for affordable, it is different. For mid-segment, it is different. For a high-end, it is different. Now, the segment where they were operating or the segment where HDFC was operating, the model was completely different.

One was an APF-led model. The other was a purely data-driven model and mobile and telephonic, because it was a different segment. If you come down to the segment that we are in, it is a different way of doing business. If you go to the affordable, it is more, it has to be a little more intensive in terms of the operational mechanism, in terms of the checks and balances, in terms of the attrition, staff training, everything.

So, it is different. So far, somehow, the industry has not been able to crack that and operate across channels. That is one thing for there. If it is there, it would be something very worth for people to try. Today, if you tell me whether it is possible to go down the segment or do in the affordable segment, I would love to.

But then today, the way this team has been operating, I don't think in the next 5 to 7 years it will be possible. And if at all it has to be done, it has to be a completely separate, vertical, it is a completely different thing.

Questioner: I think what you mentioned and what is different now versus the other players historically that you mentioned is the vertical approach. Because everyone has realized that you cannot do two segments as one single company?

Management: That is what I said also. It has to be a completely different segment.

Questioner: But there is an approach that all of these guys are now finally realizing. I was actually very pleasantly surprised. One of the largest HFC, the remaining one which is there, when they talked about getting into affordable, my thoughts were that. But when I spoke with them, they were also now very clear that we can't do it like this.

We will be creating a vertical. Of course, it's different how it will pan out and all. But I think that now realization is dawning upon players that you can't operate it as a one just company. But execution is the key then you were saying/

Management: See, I will tell you, the audit that you do for a raised income segment, the same team even cannot do the audit of a mid-six men. Correct. The same team cannot even do the audit of a high-end segment. The policy that is there for this segment cannot be for the other two segments. So, to be able to have multiple policy structures all coming under the same board, I am sure people are trying it and I would love to see something happen. As of the moment, as a practitioner, I feel it is a little difficult.

Questioner: Even amongst the private players, forget you said the quasi-PSU player, but the private players, you take a Bajaj Housing or a PNB Housing. In your opinion, again, probably this is not relating to us, but just given your experience in the industry, what is your take on that?

Management: No, I wish them luck as I said at the beginning and I do wish that somebody does it and we are able to see this particular attempt work. But I see some practical issues here which I right now do not have an answer for. And I believe these are genuine challenges like audit, having a separate policy structure, having a separate field structure, how do you separate between the teams that are operating here, how do you draw a line between what goes for affordable segment and what goes over here.

These are all very, very complex. Like for example, if you go to a Tier 2 town. Now, Tier 2 town will also have a larger volume for, a larger proportion of whatever pie is there in that particular market for affordable. But then, when you do get a case which is not pertaining to the affordable, but a near prime segment, how do you handle that?

You cannot afford to have a separate team working over there because then the share of the pie is not good enough. So, how do you manage that? So, it is very difficult to kind of differentiate and do this.

Questioner: And then basically because the incentives are on the field, it is completely very different?

Management: Absolutely.

Questioner: So, last one thing would be, I know this is probably now almost a year back, but there was a patch where we had a lot of lapses and some of the untoward incidents also which were there. Two things over there. One is, was that something more of a process led? And I understand, I have gone through all those things? But in your opinion, something that could have been prevented?

And second is that what gives us now the confidence that something of similar nature or something very different may not actually pan out?

Management: See, the first incident happened in 2022 when there was one small fraud at a Birwadi branch. There, it was a pure credit fraud where some customers had fabricated some income documents. Now, it was, I mean, in hindsight, it looks like it was blown out of proportion. But having said that at that time, there was a genuine concern.

And PAN-India audits were carried out, business was affected, everything was there, sentiment got affected internally, everything happened. And it was only limited found at the end of the day only to a one branch where 57 cases were found where customers had kind of fabricated documents only to get a lower rate of interest to the loan.

As of today, out of 57 loans, 54 loans are closed, fully recovered, nothing has happened because the underlying security was very much there. The customer was very much present. The intention to pay was very much there. Only thing was instead of a 10.5, they just explored if they

can, I mean, just give an example, if they can, just by showing some document, if it can be at a 9 and a half percent loan, why not? So, that was the incident.

Now, yes, we have taken steps to, identify or minimize such incidents also because we have, as I said, we have done this tie-up with Karza for our verification of Aadhaar, we have done PAN. Now, IDRs are directly pulled from this thing. We are seeing a checking the bank statement whether the credits are there or not. CIBIL obviously is also there. It was there then also, but anyway, so all those things are there.

The second incident was definitely avoidable. The second incident which is the ambala incident which was there, it was definitely avoidable. It was purely an internal control lapse and there also we have taken steps to completely handle that. Now, it was basically something to do with the reconciliation process and that also for a common pool account where huge volumes were there and there was a single pool account from which all the disbursements across used to be drawn.

So, we have now, we have completely centralized the disbursement. Now, that pool account system is not there. We have verified the, separate team has been set up ahead of this to see that it is there. All the things before disbursements are verified and additionally we have also completely automated our reconciliation process.

So, basically, this pool system which was one account which was, because it was a pool from a parent bank, we used to just issue checks and there was an OD account from where it was funded and all. That we have kind of done away with. So, that is something which could have, which should have been avoided, should not have happened. But anyway, we have learned and we have modified the processes too.

Questioner: But that was a process which was going on since, I would say, last 20-30 years, right?

Management: Correct, correct.

Questioner: Okay, fair enough. And just one on the first piece that you mentioned, the fraud which was there, after that you brought in that, say, directly fetching the ITR and all those things so that there can be no fraudulent documents that are submitted or it was even back then actually a practice which was prevalent to do that but it just passed through...

Management: No, it is not that. Actually, at that point in time, we did not have the IT system to verify online. That time what was, manually the branches used to check that and it used to be, the chartered accountants used to certify the ITRs and used to accept that. So, obviously, there is a, possibility of some fabrication happening and when you are doing the business, you take the certified copy.

Now, not always you can verify physically from the portal. Now, what we have done is straight based on the PAN number, we are able to, with the OTP from the customer, we are able to download through the Karza time. So, that is what we have moved to.

So, we are now doing away with the ITRs which are certified by chartered accountants and everything. But, I am telling you, for people who are, I mean, who are not even filing returns and we are talking about that segment being the most lucrative. So, I mean.

Questioner: What actually perplexes me is that how can the credit cost in that segment, be so similar to what it is there for the near prime or the prime segment. Similar. I understand it is not still the same. Because many of those players in the non-HLPs, if you look at it, now people are going and doing the MSME loans. 16, 16.5 loans?

Management: No, see, it is all a matter of, how you want to look at it. If you look at it, traditional old companies never had a right of policy. Now, there is a right of policies if an account is outstanding for more than 24 months. So, you take some small, small, factor it into your credit cost by actually putting it. So, when you write off the loans, anyway, the balance is only what is reported as.

Questioner: So, that is what I was referring to credit cost. Because, I think first of all, now that we are in the lending space that we are in, GNP is not a metric of, say, asset quality. I think the real metric is you look at the slippages. Because, as you mentioned, write-off is basically used on most of the retail loans. So, from that perspective, I think there is something still probably there is some bit of seizing to my mind that can come through.

Management: Like I will tell you what, HDFC, if you look at their old reports, if you see their credit cost or what was their actual write-off in the entire HDFC was INR0.06. This is the report write-off. Because, there used to also write-off, but at the same time there was some recovery also coming in and the actual write-off in the books was only INR0.06.

For Guru Finance, it was INR0.08. So, now, we do not consider that, we do not monitor that and we do not see how, what is that figure. Because, you are writing off on a regular basis, you are writing off and what is reflected is only what is there in the books. There are also, models where you are, selling off pools to other lenders and all. So, actually, what gets reported is not the same. And over a period of time, what needs to be seen is there are recoveries.

The actual write-off will be what your net of worth recovery eventually you have done. So, there has to be also a banded return of coming into the books. Now, if there is a banded return of coming into the books, that it means that it is not out of sight, out of mind. It is still there, parked somewhere from where you are still following up and doing the recovery. Now, that needs to be seen whether that is happening, how much it is happening.

Questioner: No, very true, sir. Great. I would take much more of your time, sir.