

“YES Securities Road Show”



Interviewee 1: Some relaxation finally. And that is good, you know, it is always difficult to catch, otherwise you have to call after the after 3:30. But I think we at least from our point of view, from January or February, we have been putting up all our transcripts on our website.

Interviewee 2: Even all the meetings.

Interviewee 1: Including the group meetings. In group meetings, we are not able to obviously say who all are there because we do not know. Finally, some people come, they do not give their cards and all. And so we do not give the names, we just mention.

Interviewer: But you upload the entire transcript for the investor meeting?

Interviewee 2: Yes. It is an entire transcript.

Interviewee 1: Yes. So, basically, it happens after about 48 to 72 hours or whatever. We go back, once we go back, like tomorrow we will go back. So, Wednesday, we will share it with the team. We have a tie up with this chorus and then they do the transcript. It takes a day or something for us to check some mistakes. But we have seen that they have got a fairly very good quality of, they understand the business. So, basic things they do not.

Interviewer: Thanks, sir. Thanks for coming. Where we wanted to start, I think we actually left last time that we met. And potentially the question around the circle around the same key is the growth basically. I think this franchise has done so well in the past, but not recently because it could be because of related to a lot of pressures which are coming, new players which are entering the markets and all. So, if you can just highlight because now our growth has triggered towards a single digit basically. The idea is the size that you are currently, the idea is to easily move over 15% to 18% at least and that should be a very sustainable trajectory. So, we can just help strategically to have identified the core problems and how you are addressing those core problems would be very good and you can cover as details as you want.

Interviewee 1: Sure. See, the problem or anything is that, the expectation is definitely, absolutely bang on. We should be able to do 15% and the industry growth also is there. The segment at least that we are in, I would not say that affordable is growing at that rate, but at least the segment that we are in, which is the mid segment, is definitely growing around 12% to 15%. So, 15% growth for us with a better franchise, with a better liability profile, with a better bargaining in terms of our borrowings and ALM position. Definitely 15%, a little better than the market is absolutely justified. The issue is we had a couple of setbacks. Like in 2022, we had this problem which was identified by Canara Bank, and we had the entire audit done throughout. Thereafter, we had this 23 July, we had this Ambala issue. So, obviously, that reflected one major problem area for us internally, both internal controls and processes. So, that is where we have actually spent the last couple of years streamlining it or rather one year at least, 23, 24 and up to this. Definitely went into all those issues and we have definitely improved a lot of our internal steps because we brought in the centralized disbursement, we brought in a 100% credit review monitoring from a head office. Then we have introduced a lot of IT solutions. We have also introduced to strengthen

our assurance functions, risk compliance, audit. So, a lot of things have happened. On technology side, we have already upgraded our platform and now we are going for a complete IT transformation. So, a lot of things have happened and I can at least say that now we are very much comparable with the industry in terms of our processes, our controls. A lot of improvement has definitely been there. That was on that part. That is where we actually lost out and where our growth kind of went down from the earlier 15% or whatever was there to right now what it is at 8%. But today, if you look at our disbursements, we have kind of stabilized, our disbursements have been picking up. Even in Telangana and Karnataka, they are picking up. And so there is an all-round development in terms of growth. Our all zones, we have six zones basically. Our 248 branches are divided into six zones. All the six zones will be positive by the end of the year. Currently, Karnataka and Telangana are not, but West, North, Tamil Nadu and East, that is Andhra Pradesh mainly, they are all doing well. All of them are growing and Karnataka because of the e-khata and Telangana because of the hydra issue, we had, you know, slow down. But Karnataka, the way it has been picking up, we are back to kind of numbers where by the end of Q3, we should be about 3% to 4% YTD positive in Karnataka as well. And by the end of the year, we are looking at about a 10% growth in Karnataka. In case of Telangana, in fact, it has been a slightly longer issue, but still by Q4, we expect that to also be coming out of position because it is consistent. So, Telangana also, now we are back to 100. Even in this month, we have done more than INR 100 crores in Telangana also. So, the way the pickup is happening, by the end of the year, even Telangana should be ending in positive.

Interviewer: Sir, you said that already challenges are behind. Your current objectives are not disbursement, you are talking about INR 2200 crores.

Interviewee 1: 2200, per quarter you are talking about, we did 2500 in Q2.

Interviewer: Correct.

Interviewee 1: And in Q3, we were originally targeting 2500. But because our IT transformation is slightly going back by about a couple of weeks into January, so we are revising our target to 2800 so that by the end of the year, we can still touch the figure of 10,500 for disbursements. Last year, we had done INR 8500 crores. So, that will be a 20% plus growth in terms of disbursement. And so, INR 2800 crores in Q3 would mean that we require about 3200 in Q4, which obviously is always the best quarter for everyone. So, that way, if 2800 we achieve this quarter, we should be able to do 3200 in Q4.

Interviewer: But sir, do you believe that potentially in order to deliver even 20% growth, the disbursement growth has to be around 18% to 20% on an annual basis? So, overall, if I really look at the three-year window period, do you believe from INR 10,500 crores, what is the capacity needed, what is the basically tech benefits that you are basically going to achieve those things? Do you believe this 20% trajectory would be an achievable, doable or how tough it is and what kind of investments are required for it?

Interviewee 1: The amount of investment that is required, I think we have already kind of gone into it. In the sense that the IT transformation where we are spending about INR 300 crores, including the CAPEX and OPEX and OPEX will be over the next six years. I think that we have already embarked on that journey. And the other thing we have done is we have also invested in terms of our people. We have also started this sourcing channel, which is also one of the key things that is required to have a sustainable growth, because only depending on the DSA channel was also not going to do. So, we have already started investing into it. And as the years progress, we will be investing more into the sales channel, because now that the experiment that we tried and the kind of model that we adopted, I think it is proving to be correct, because even this quarter, we have about 87 people as we speak, so that 87 people are contributing about 8%. And last month also in September, actually this we had about 90 people and the 90 people actually brought in INR 77 crores of business in that one month, which is almost like 80 lakhs per staff per month productivity.

Interviewer: What is the current BS team size and where you wanted to achieve this size of the team?

Interviewee 1: See, currently, as I said, it is 87. As we speak, it was 90 in September and some people living here and there is approximately you can say 90. We would like to at least see that it should become about 250 in another couple of years. So, we will be adding people, some from within, some from outside. Because once the IT transformation is in place, we will be able to relieve or take out some of the people from within also and move them to sales. So, over a period of the next two years, I think we should be looking at around 250 people. So, that itself will bring a good kind of contribution from this channel.

Interviewer: Sir, question is around same thing. One is can you bifurcate one by one. Firstly, one has to be agree 15% growth, we need 18% to 20% disbursement. For this 18% to 20% disbursement growth, one is, how much branch expansion do we need? Where are basically branches? Because what we have seen the pace of the branch expansion, which is that because your typical guidance is 15 branches in every year. Do you believe that the 15 branches are still suffice to add to these and this kind of the growth trajectory both in disbursement and second part is if you can also cover along with the, see, in technology what we seen. I will give you an example of classic example of all the affordable housing companies is gone. I think, you know, Abhas took this transformation quite late. Still there is a teething issues of 12 months where you are IT upgraded, IT where they move to the new sales role. But they said that people training required, the amount of the productivity to bring in because it says that we have started in tech, but it does not come immediately. But what goes to the investor, boss this volume will come now. So, the question which we have, you are undergoing that transformation. Do you believe many of the peers have already done it? Now your journey started now, the trainings are required, the bandwidth because you have to eventually connect those basically tech leads with us so that your conversion of the leads becomes very faster. So, where are we in the tech transformation journey and where, how and what kind of the benefits one should assume over a period of time?

Interviewee 1: See, if I were to tell you, during the COVID, when COVID hit, we stopped the branch expansion. So, branch expansion from 2020 to 2023 was kind of stopped. Three years there was no branch

expansion. We restarted it, now we are doing 15-15. The question is whether 15 is sufficient or you can do 25 and you can do 50. Yes, we can do 50 also, but I think 15 is sufficient for us to right now achieve the kind of growth that we are targeting, about 20% in terms of disbursement. Today if I have to look at the present capacity, the present team size which was around 870 or 880 or something when I joined, it is now already 1300. We have already kind of done a 30%, 40% increase in our staffing to meet the future capacity requirement in the existing branches.

Interviewer: 30% to 40%?

Interviewee 1: Yes, we were about 900, sorry, not 870, 970 we were. From 970 we have already made it 1380 is what we are looking at. So, almost a 50% kind of an increase in the staffing has already kind of happened. Second thing, in terms of the present team size, not considering the staff increase that is going to happen in the next two years, I think the present team should be able to easily deliver about INR 12,500 crores. So, what capacity we have today should without an increase be able to even meet the requirements of the next financial year. So, basically, we are one year ahead in terms of the staffing requirement. Today we are expecting 10,500 to be generated from this team, but this team has a capacity to, so we are actually building for one year in advance that is one point. The second thing is even with this kind of expansion of branches that we are looking about, we should be about 300 branches and that 300 branches should be able to meet our requirement of 15% to 20% disbursement growth in the next two to three years, should not be a problem that is one thing. Second, you rightly said that the IT transformation has you know rather any IT transformation has been a big disruptor in all the cases that it has happened. But again, if you look at it, the places where this has happened, most of the places the issue was the one which we have identified of course, I mean it can be right, wrong, but that only time will tell, but we feel that the major reason why this issue has happened is one the LOS and LMS have been from a different vendor. So, there have been integration issues. Therefore, we were very clear that whenever we go for an IT transformation, our LOS, LMS vendor will be the same. So, there will not be any issue between the LOS and LMS where you know they do not talk to each other or there are issues in terms of integration that has been one of the major things that have happened. Second, in terms of IT transformation, yes, training is an issue, but the kind of products that we have, we have less complicated products that we offer as compared to the market because we are only looking at the documented income segment and we have fewer products in the sense that we do not have you know the average bank balance, surrogate income or the multiplier product or those kind of complicated products which require more of assessed income. Ours is a more you know simpler process that we follow. So, current package that we have that IBM is bringing in which is Pennant and 85% of the product is a absolute match where we do not have to do any new integration or any new configuration changes. Whatever little change has to be happened, there are only eight or nine small modules where you know there is a change which is required by Canfin which is not available in the market. The remaining also are configurations which have to be modified only because we have a particular vendor like today our pan integration, Aadhaar integration, our account aggregator integration, our IT integration, our civil integration. So, those kind of integrations anyway will have to be done, but these are all things which are already in the market. So, these are not integration which are actually going to require any major change from the OEM side that is the Pennant side. So,

basically what I am saying is training will be required more because there is a UI, UX change. There will be change because the process will be changing like the path to particular to do a particular activity will change. Those are the kind of changes which will happen not in terms of the logic, not in terms of the products, not in terms of the business model that we do. So, that is one major thing that we believe will be there. Now, second is in terms of the IT integration where are we? One, we have already implemented the SD-WAN which is the infrastructure side. It is already implemented. The mailing solutions and the active directory and all those things they have already been implemented in September. They have already gone like the things like treasury module, borrowing module, ALM module, they have also been implemented. Of course, they only affect the head office. So, therefore, it is not a major thing which is which is going to affect the business. The frontline business will only be affected when you are going to touch the LOS LMS. Now, LOS LMS also as I said 85% is as is where is which is without any modification. So, that is the major thing that is the comfort for us. Training of course, will be required no doubt about it. We are investing in training. We are investing in, we have a setup, or we have a proper training department. IBM itself is also bringing in resources to help us in training, and we will be doing it starting shortly.

Interviewer:

So, what can the technology deficiency that you have observed, and potentially will you believe that with this new LOS and LMS once get fully implemented and being trained for the front-end people which are the key driver of the business volumes. How much basically it can improve? What sort of a current deficiencies in the tech versus the market and how it will bring that disparity and bring you at the edge of the path towards us?

Interviewee 1:

See in these two years back if you asked me I would have said there were a huge amount of differences between what CanFin was having in terms of tech versus what the industry was offering. Many of the processes were manual and there were many you know person dependent kind of processes which were time consuming as well. In the last two years also in fact there are many new modules which we have implemented. We even upgraded our present old package which is their IBS from Ancia. We upgraded that also. So, in fact prior to 2023 in fact there was the module that was there did not even have any kind of API integrations. Whereas now after the upgrade we have the API integrations we have brought in a lot of changes like our PAN we tied up with Karza so our PAN author verification, Aadhaar verification, IT statement verification all those things have been automated. Sybil pull that is Sybil and XP and we have a tie with the pull is automated. Yes the account aggregator, bank statement also is getting automated. So, all those things our reconsideration is an automated process. All these things we have eNach where it was a manual Nach we moved to eNach. So, all those things have already been done. Last time you know last or the earnings call before that we mentioned that the one thing or two things which we did not have compared to the market at that point in time when was the digital signatures for documentation which also now we have getting it done. So, even without the IT transformation happening that is already starting to happen. So, that also is now getting bridged between us and the competition. So, digital signatures also will be able to do. So, hardly there is anything which now we can say we are not offering which this is there. One major thing which will now get added post IT transformation which even now we do not have is the digital onboarding. And digital onboarding is something which will start giving us another

one more vertical for sourcing. Earlier we had only the DSA sourcing and direct walk-ins. Now we have a second sourcing channel which is our sales team. And once this IT transformation is completed we will also start getting digital onboarding.

Interviewer: By when this IT transformation will be fully completed according to you?

Interviewee 1: See, Q4 definitely it will be over. Our present thing is our implementation is going to happen in January.

Interviewer: By then the training and everything all would also be done by then?

Interviewee 1: Yes, I am sure that should be over by end of Q4.

Interviewer: But any near-term disruption which comes because what happens is one process is going another process is coming and second is training is required for it basically for the people because ultimately business will come front end staffs. So, do you believe that because what we have observed when this happens lot of the DSA channel we spoke around they said that tech migration is going on for you all where they are typically because of this some bit of the ability to pass the file or in that time frame has been got constrained around. Do you believe that level of disruption can come for you?

Interviewee 1: See, right now as I said because LOS and LMS are the same vendor it is already operational in a couple of leading HFCs. Therefore, there is no new logic which has to be applied. That linkage between the LOS and LMS where the file moving from a login to the disbursement and the post disbursement processing is already in place, the pipeline is already set. We do not have to do a fresh kind of tie ups or the linkages that have to be done or the logic that has to be put in. It is already running in multiple places. Pennant as a LOS LMS provider is already operational in Bajaj, it is already operational in LIC HFC.

Interviewer: So, now IT capability is just concluding. So, IT capabilities have now bring it at par probably fully implementation by 4th year. Second is we have already added a lot of people and second is the new channel of the DST which will potentially. So, internal problems do you believe now is at par and there is no challenges to drive this 20% growth?

Interviewee 1: I believe yes.

Interviewer: And the second part dimension is that what I have observed in the country, in particular with the when we are geographically focused in two, three or four areas, any challenges coming, see there are always some bit of challenges which do emerge basically. It is never something where today is Karnataka and Telangana sometimes North also become because these are penetrated market and typically our focus is in the periphery of the tier 1 markets which you can say probably some bit of and these are well penetrated market we all know what kind of the top 10 states where we are also present. How we can bring the geographical diversity to our so that one state does not impact us so heavily. I mean last year Karnataka my worry is last year Karnataka next time could be some another state. How we can ensure that geographical diversity plays out for us on an

incrementally and so that our trajectory of disbursement does not get disrupted because of these external issues.

Interviewee 1: See earlier south used to be almost 75% of the business, okay four states. It has come down to below 65 okay. The way we are expanding the network in the north and in the West. Today our this business is only going to increase because the new branches as and when they start becoming productive the contribution from these branches is also going to go up. So, two years back if I have to look at it we were doing about INR 650 crores. Out of that INR 650 crores, INR 250 crores was coming from Karnataka which is almost like 40%, 38%, 35%, 38% was coming from Karnataka. Today the contribution from Karnataka is down to 30% okay. Today if I look at my north business it is doing about close to about INR 135 crore per month. Our West business is doing about INR 130 crore per month. Tamil Nadu is doing about INR 160 crore a month. Telangana is now doing INR 100 crore a month, and Karnataka has come down to around INR 250 crore a month. So, now if you look at the whole thing it is a little more balanced but of course because we have more number of stronger brand recognition and a more number of older branches in the south. Obviously, the south as a block of four states or five states is still contributing around 65% but otherwise if you look at it now the business each of the zones is in a position to contribute a good sizable number. So, yes there could be a month like you know that is why in spite of our Karnataka and Telangana, two major markets today if I look at the outstanding portfolio Karnataka is INR 11,000 crore, Telangana is about INR 7,000 crores. So, that is almost INR 18,000 crore out of close to 40,000 is a sizable almost. In spite of that we have been able to cover up from the other states. So, that is what I am saying we have moved that, we have taken that journey the last two years we have made some correction but it is not something which overnight we can change but that that is already there that is why we have said that by FY'28 we would like to make it 60:40.

Interviewer: Okay by FY'28.

Interviewee 1: Yes, that is 60.

Interviewer: 60 will be south.

Interviewee 1: 60 will be south and 40 will be rest of it.

Interviewer: Which is currently around 65:35.

Interviewee 1: Which would be incrementally 65:35 not on the book. On the book maybe as I said still you know if I look at the southern states it will be

Interviewer: 60% four states you exclude Kerala.

Interviewee 1: Kerala is also there it is a very only four branches we have.

Interviewer: So, that is not a big deal.

Interviewee 1: It is there Kerala is doing about,

Interviewer: Five states.

Interviewee 1: Yes, we can say five states it is still the same I mean today Kerala is not a separate zone for us that is why I say it is part of our Tamil Nadu zone that is why.

Interviewer: And how do this Tamil Nadu and.

Interviewee 1: See today between West and north if I look at it out of about INR 40,000 crore about INR 11,000 crore is coming from these two so about 27% is still on the book, is coming from the two West and north.

Interviewer: Sir sorry West and North you mean?

Interviewee 1: West zone which is the four states of Rajasthan, Gujarat, Maharashtra and MP and north zone, which is basically UP, NCR, Uttarakhand, Punjab, Haryana. These are today about both are around close to INR 5,000 crore, INR 5,500 crore.

Interviewer: Each.

Interviewee 1: Outstanding yes.

Interviewer: So, roughly INR 12,000 crores.

Interviewee 1: INR 11,000 crores.

Interviewer: You mentioned 27 so I got confused.

Interviewee 1: 11,000 on today or not INR 39,000.

Interviewer: The rest is south.

Interviewee 1: Rest you can say no we have some from you know, we have Orissa, we have Chhattisgarh, we have all those things maybe adding a little more. So, 11,500 you can say is what is out of the INR 39,000 crore is the rest of the south.

Interviewer: Now if you look at means you have a very rich experience of Gujarat and Maharashtra in that sense when you are in your first Gruh days or whether it was there in that sense. These markets easily for us given our name plus the way we could have better cost of funding advantage over many other affordable housing finance companies especially in these regions. Would it be fair to assume that these markets could easily double for us in the next three years?

Interviewee 1: Definitely, because I will tell you today in the last this two, two and a half years if you see, look at the number of amount of business on a consistent basis both north has been growing at 20%

plus. Even though last year was almost a flat year for us, north has grown by 20% plus in the last year also. This year also it continues to grow at that rate. The year before that also whatever there was a growth in north. West zone has been a work in progress for us because first Rajasthan turned around then Gujarat turned around now Maharashtra because mainly there were issues of stability of staff. So, first Rajasthan turned around then Gujarat turned around this year even Maharashtra we have been able to get the stability of staff and that also is turning around. So, definitely this year you will see 25% growth in West zone which is next year going to be probably even better. So, definitely we are saying the contribution from these two zones is going to increase.

Interviewer:

So, third is, our ticket size is INR 25 lakhs and here the competition is the highest, you suffered the competition you know top four or five franchises like Tata Capital, Bajaj Housing everyone basically. And these are just basically and we know that there will be and the second part will come even smaller banks. Most of the smaller banks or the mid-sized banks are also wanted to position this segment because they believe they are, and the cost of the funds differential is there versus the large, because here we take up to 50-100 basis points. So, this is the second reason we are in heavy competition. How we can hit product basically, product diversification because competition will come and Reliance is on DSA, DSA brings 80% of our volumes to us right now. How we can ensure that probably we will still basically grow from this 40,000 to 70,000, meaning 50% rate of growth. Because competition will increase, how we ensure that?

Interviewee 1:

See competition increases that is correct. But today if you look at the pricing, pricing for us I think is one definite advantage even among the names that you mentioned. Probably Bajaj gives a lower rate, but they work on a blended cost basis where they also give a top-up at a higher rate, okay. PNB definitely their pricing is higher than ours. Prime Housing they have a lower rate, but Prime Housing is much at a much higher ticket size. You talk about LIC, LIC has a very comparable and sometimes you know in patches sometimes we have a better rate, sometimes they have a better rate, some products we are better, some products they are. So, that is the only one which is comparable, but otherwise all the other names that you mentioned in terms of pricing I think we have an advantage over them, that is one thing. What additional advantage they have is definitely they have a better street-on-street franchisee which we are now building. So, obviously as we build it, we will continue to get the advantage, whereas they already have encashed that advantage. So, that is one thing which is what was for us.

Interviewer:

Sir, that is what I am saying, if the product diversification may be required, can we get into more in the employee segment to earn, can we get into something like affordable because earlier the main problem that you are saying, we do not have that much DST team. Now, do you believe that those capabilities can be built so that you do not need to go to below 10 lakhs, but can we operate somewhere between 10 lakhs to 15 lakhs and can figure out what something PNB is trying to do something like similar. Do you believe for sustainable trajectory of campaign, we need these products?

Interviewee 1:

See, we have increased, you see our representation, we have said that we will slightly increase our self-employed and our non-housing products. Earlier our FY'23, if you see our housing to

non-housing was 73:27 on the book, today it is 70:30. We have said by FY'28, this will move to 65:35 that is housing, non-housing. So, we have already taken that path and we are slowly progressing in that direction. Same way, housing, non-housing, we were 89% housing including CRE and 1% non-housing. The same including CRE is today 86% and it is 14%. There also we have said but FY'28, we are okay to bring it down to 80:20. So, there also we have taken that path where a little bit of our lab has increased, a little bit of our top-up loans has increased. So, both these directions in terms of self-employed as well as in terms of housing, non-housing, we have taken that journey and we are progressing. So, while, you know, we have been focusing on this Karnataka, E-Khata and all those things and tech transfer, we have also simultaneously worked on these aspects as well. And it is clearly, so this point kept on coming, that is why this first time in our investor presentation, this time we have put a one entire slide on this, what is the roadmap for FY'28, where we have put four pillars. One of them is a geographical breakup, where we said from the current or this thing, we would like to go to 60:40 geographical mix, south versus West of India. Second, we said from our housing, non-housing breakup, which was 73:27, we have moved to 70:30, we are likely to go up to 65:35. Third was the housing versus non-housing. There also we said we were 89:11, we are now at 86:14, we are likely to go up to 80:40. The fourth thing we said which is the main area is our, where we are still not happy with our progress is the DSA versus rest of it. Now, there we said we were 87:13 or something incrementally, which is now 79:21, that we wanted to find further bring it down to 60:40 by FY'28. The 40% also we said, 20% will be from the direct channel sourcing which we are now started, which is now incrementally contributing about 8%, 8.5%. 10% will be from digital mix, which yet has not started because our IT transformation is pending. Once it gets completed, then our digital onboarding will also start and the remaining 10% we said will be from the walk-in customers, repeat customers and all those things. So, that is one journey which has left, but the other three pillars are definitely going as per plan.

Interviewer: Sir, you have ensured that in terms of incremental disbursement, your self-employed segment contribution should be around 30%. Have you reached that stage, where 30% is already?

Interviewee 1: Incrementally, 40% is from self-employed. In incremental business, 40% is self-employed, 60% is salaried. That is why, on a gradual basis, our overall mix on the book has changed from 73:27 to 70:30.

Interviewer: And even then, within the lab also, continuously our focus is improving towards taking that direction to 20%.

Interviewee 1: Yes, yes. That is why our lab has slightly increased.

Interviewer: Sir, just to ask you, in the new business, whichever we target in new branches, the first focus is to target salaried class customers, or you go with strategy across products?

Interviewee 1: No, no. Strategy is always across products, but there is a little bit of a local flavor. Like, for example, we are opening branches in North as well as in West. But in West, particularly Gujarat and Rajasthan, the percentage of self-employed is a little higher compared to the rest. But when

you look at North, the salaried is still higher, much higher, you know this thing, because that is a general profile of the market. Same way in Tamil Nadu, when we look at it, Tamil Nadu also the self-employed is slightly higher. Of course, we have not opened branches over there, but that has been a traditional kind of thing because that is how the market is.

Interviewer: Sir, the pressure of BT-out, how do you control the BT-out pressure? And secondly, the ticket size, because if I am not wrong, I used to cover this from four years back, that time our average ticket size used to be INR 18 lakhs. Obviously, some bit of the inflation has increased also. But at the same time why some focus in on the ticket size, how do you protect the yield in that sense?

Interviewee 1: If you see our, in the last one year, one and a half year, when the rates are actually reported have been cut by 100 basis points, our yield on the book still has not come down by that much number. And that is precisely because we have slightly shifted to self-employed, we have slightly shifted to non-housing. And these two products are slightly giving us that bit of an insulation from that rate because we charge about half a percentage higher for self-employed, same way for non-housing. And of course, that is in a varied, you know, like for example, if it is a non-housing, but commercially, it is even higher. If it is plotted, it is somewhere in between and stuff like that. So, we have slightly our increased self-employed segment penetration as a little more in lab and top up has helped us slightly, you know, give the buffer to that production.

Interviewer: Sir, how much PLR have we passed on till now? Because my one theory is also because so far the PLR has not declined to an extent of the reported cut.

Interviewee 1: Obviously, it will not.

Interviewer: And over a period of time, when your cost of funds will come down, you will have that. Can that have an incremental going forward pressure or you believe that the spreads we will be able to manage?

Interviewee 1: We will be able to manage the spreads. In fact, our spreads, we had originally given the guidance to be around 2.5%. But this quarter, we have already achieved 2.79 and we said we are increasing our guidance to 2.75.

Interviewer: But what is the long term? Because when you are giving the guidance, thinking FY'28 because now what basically kind of the kind of the spreads that you wanted to do? Do you believe that 2.75 is a more sustainable trajectory or a 2.75 is not?

Interviewee 1: I guess yes, because we have made a very important shift, which is from our annual reducing to quarterly reducing. So, earlier that actually had a bit of a risk on our balance sheet because when the rates moved, our asset side was moving much slower. So, particularly when the rates went up in that one and a half year period prior up to July'23, at that time we really had a bit of a squeeze on our margins because on the asset side it was not going, whereas on the liability side it moved up. So, we have started moving our portfolio and from January'24, we moved to quarterly reset and thereafter incremental business is only on quarterly reset and the existing

portfolio has been a little slow in moving. But now in the next two quarters, we want to really focus on that particular bit so that our entire asset side also moves to quarterly so that the transmission is uniform otherwise that risk is there. Now, second thing is your earlier question part of the question as to how much of transmission has happened. I mean our case it is 25 basis points we have already passed on to our customers, existing as well as new customers. Now, it could have been 35 basis points also we wanted to actually pass on another 10 basis points and presently also I believe there is a scope to pass on another 10 basis points even in the current even not considering whatever future PLR cuts the RBI will announce. When the present situation about 10 basis points I think we can pass on to our customers.

Interviewer: Can you say something like that if I really have to summarize this meeting so far at least we believe that the growth challenges are I am incrementally we are going to see a much stronger disbursement growth and which will over a period of translate into an AUM growth of 50% at least disbursement are 20%, we are well positioned to deliver 20% disbursement growth. Is that the one should take a right understanding?

Interviewee 1: That is correct. I would agree with you. Adding a 20% disbursement growth is something which we can factor in into our system for the next two to three years. We have already built in the capacity for that. IT transformation is only going to help and support that going forward. So, 20% kind of a disbursement growth leading to a 15% AUM growth is possible.

Interviewer: So, it is sorted from here on. Spreads are not a challenge for us. Anyways, next couple of quarters we are being benefited because our incremental cost versus outstanding cost is going to reduce another. Basically, we will see another improvement over the next few quarters. So, definitely spreads at 2.75 is not a challenge at all. Plus you are changing the business mix profile as well in the disbursement story.

Interviewee 1: Correct.

Interviewer: Third is asset quality. Ideally, the challenge that has been shown so far is that it is a 15 lakhs challenge. 25 lakhs so far is not a bigger challenge. But what is your reading and shaping up? Do you see any element of negative surprise that one should have a question in the segment? Are there signs of over leveraging particularly towards lab, towards driving consumption? Any signs of building up?

Interviewee 1: See, lab, I do agree that there is a particularly small ticket lab has been a bit of a flavor. And it has seen some kind of a worry. We in fact have been very cautious. In fact, BT out that you mentioned a little while back, that actually for us is mainly because some of the players, they offer a lower rate in housing takeover but then offer a much higher rate in the lab, which if individually we were to give a lab, we could have offered the same customer at a lower rate. But we do not see the possibility of being able to take such a big exposure given the property value. So, we do not take that risk, but it has been happening. So, I think yes, lab is a little bit something which we can probably be cautious about. But I do not see much of an issue in the segment that we are digging.

Interviewer: And I think on the outstanding portfolios so far because I attended the call of many of the affordable housing players, and as well as the small business loans companies as well, but at least they have gone, they have decided consciously that the ticket size below INR 7 lakhs should not be operated. Do you feel any provenance to your portfolio? See, not particularly to INR 7 lakhs, but any category of the ticket size where you have decided to calibrate your strategy or your incremental disbursement should not be less than to this 3-4 customer or any portfolio pruning that you have done?

Interviewee 1: The one thing that I would, which in fact I was telling my boys even before this E-khata issue happened was that this Gram Panchayat eventually, because this is something we have been seeing. If you look at the government's narrative, they have been talking about urbanization, they have been talking about expanding the cities, they have been talking about urban infrastructure. So, it was quite natural that these panchayats would eventually come into city limits and the way cities have grown, these periphery areas are going to come into the city. So, that is one point which I have been warning even before E-khata happened. And now E-khata has clearly proven that thing to be correct, is that in these periphery areas and very rural areas, we need to be a little more missing on that because something may be possible. So, we have to move little more into the, I would say more into the corporation areas or things like that. That is one area, I believe something will happen.

Interviewer: Sir, but overall after the policy

Interviewee 1: Because if you see, I will just explain why. Because if you see other states also slowly, maybe their markets are not so big, and nobody has such a big exposure in one single market which is affecting them. Therefore, probably the narrative is not coming out clearly. But if you see there are other things also, where they have taken similar stands of either stopping the registration in some of the pockets and then moving them into the city. Things are happening in other places also. But nowhere it has come out in star because nowhere it is a big market.

Interviewer: Sir, just completing. So, the portfolio that you have started, there is no signs of anything so far which can be an element of negative surprise for you. How your entire focus is right now focused on bringing the franchise back on the road or you believe that there are some signs of where you are taking a caution or guarded or spending a lot of time on understanding the asset quality behavior of the portfolio.

Interviewee 1: Only I would say is, in fact, once upon a time our Telangana business was doing about INR 160 crores, INR 170 crores, INR 160 crores on the average per month. Today we have reached about 100. Things improving, I know the question would be can you go back to 160? I do not want to go back to 160. I will be happy with about 125 also in this year if we can touch 125. Next year if we can keep an average of 125. That is one state where I feel continuity in policy is not there. That is my take on it.

- Interviewer:** Sir, in the portfolio, I am just wondering what can trigger a wrong from a basically ultimately secured asset, housing, loans and you are giving more to a more cautious call on the self-employed, at least surrogate income. Whatever is visible, you are giving on that only eventually.
- Interviewee 1:** No, you see that the elected government has given approval. There is no fault of the customer. Just because a change of government has happened, you cannot start demolishing properties. That is where my basic thing is coming. I mean if it had been an illegal property, you demolish it absolutely fine. It happens in Bombay also. But here an elected government, an elected body, an elected set of corporation has only given the approvals. That is where I am saying slightly it does not give a good feeling. You cannot be doing that.
- Interviewer:** Sir, one question. I am just asking, your current tenure till what time it will be there and how one should as an investor incrementally we should think around how one should see the continuity of the management?
- Interviewee 1:** See, my original approval was for a three plus two. At the end of three years, so therefore a board approval has to be taken, and shareholder approval has to be once again taken. My three year tenure comes to an end in March '26. And then there will be a two year extension. And I guess, I think they will be taking it up to the board.
- Interviewee 1:** Extension should come before the next board.
- Interviewee 1:** It has to be. Otherwise, we will not be able to go to the shareholders or even by postal ballot if it has to be done. It has to be done now.
- Interviewer:** And why this 2-year extension in March?
- Interviewee 1:** Sir, that we have discussed. We have presented a post about this at that time. So, since it depends on what has been covered up in the paper, we have asked for a two-year extension also. We would like to very shortly get to that point.
- Interviewer:** Sir, I am assuming that there will be no challenge. Because of the kind of the expectation which the board has, you have already meeting well enough on those things. What is your basically thinking around that you wanted? Because till now you were addressing the challenges. Now, some bit of challenges where you wanted to focus in the entity and some of the challenges which you face from the outside also. But you have to do a lot of business changes in terms of the way we are operating and the way we are moving in itself. How are your basically next two years that you would like to spend upon? And secondly, do you want to have this continuity? Just thinking, do you have that plans to leave after the five years and initial two and a half years, now that you are doing a--
- Interviewee 1:** I think there is no question on that problem. I am not looking at a change at least at the moment. Of course, it is subject to the approval of the board and everything. As of the moment, I have no issue in continuing for the next whatever tenure is there. My original tenure was for five years, and I have no issues on that. Now, what is the focus area going forward from my point of view?

I think the franchisee as everybody knows has presently I believe only one challenge major which is having a kind of a sustainable growth in place for which one branch expansion to expanding this option, we have done it. And as you rightly said, the last three years or two and a half years have been basically for various reasons, there have been issues coming up either internal or external. I think the next two and a half years will be when all the effort that has been put will start showing some results. So, I believe it would be good to work on the same strings and then see that we reach a sustainable growth model and a sustainable kind of a disbursement growth.

Interviewer:

Sir, just last question of mine. I do not know how right or how you will be able to answer this. I am just curious because when I had this dialogue from the street one thing he said, how has it been in terms of the, because so far, how was the board response to your changes that you wanted to bring in? How is the board support that you are receiving as well? Because I think you had this plan of setting a DST team since the last two and a half years back as well. And now, within two and a half years, the team size you can say reduced to around less than 100 people. Do you feel that, are there certain challenges and you are trying your best to operate in that challenge? And how was that basically going forward with the support? How basically the feeling between you and the board is like that?

Interviewee 1:

See, I come from a background where we build institutions. Okay, it is not a one year, two year, five year kind of a story. And I think the fact that the board has approved a INR 300 crore investment on IT, the salary revision and the entire change in policy that we have done, including introduction of ESOPs, plus this channel which has started, it would not have happened if the board had not been supportive or if the board had not been on the same page. The clear message from even the promoter has been that we need to build a longer term kind of a thing. And I think, I do not know for what, I do not want to get into the past as to what happened you know. But the fact is very clear that you know, the board is also looking at something, setting up and seeing that this institution grows at a consistent business. So, I do not see any problem in that. Okay. As far as the changes are concerned, yes, there were internal challenges because of which we had to change our focus from setting up the channel to first putting the right controls in place. So, that is where we had a kind of a re alignment of the goals had to be done. Otherwise, this whatever has been put as the four pillars for our FY'28 strategy that is a board approved strategy only. I mean, it is not something that is a management saying this is their way, but it is a board approved strategy. So, clearly, we are on the same page and all these points that the market is worried about or what have been issues which have been plaguing the company are all addressed in this thing.

Interviewer:

Sir, can you just put some thoughts on your ESOP policy and how many people with.

Interviewee 1:

Sure.

Interviewer:

And how the ESOP will be any sort of a target that you have introduced before that within the ESOPs and all. Can you just put some perspective?

Interviewee 1: Yes. So, right now the ESOPs are only for a level of SMP and KMP basically. So, that is Chief Manager and above all that. That is about 65 people only in the organization today are covered by under the ESOP policy. And the ESOP policy like any other this thing is obviously linked on a graded payment or a graded reduce, you know, the Malus and clawback clauses. There are various clear targets in terms of the business achievement, in terms of the rating. So, all those things are definitely there.

Interviewer: So, last question sir, because we have met you many times, but what we really wanted to understand how you are forming the middle level management and basically how your grooming goes. Because once you are assuming, because you said my focus if I am come from a background where we build institutions.

Interviewee 1: Absolutely.

Interviewer: And the institution when is always when it is a self-survival mode.

Interviewee 1: Absolutely.

Interviewer: So, how you are forming your top leadership team, second tier. Now, let us say if you can do some Analyst Day at least make us meet or probably when.

Interviewee 1: No, most welcome.

Interviewer: Come to your office and you can help us rather than you do that day. You would like to meet and spend time with your. How was that leadership that you can just talk about?

Interviewee 1: Sure. See, just like any other organization where verticals have to be there. In fact, we have in the last two and a half years, we have strengthened all the assurance functions. So, clear cut second line has been developed. Every branch we have standardized. So, two years we actually spend in ensuring that all the branches had a standardized kind of a leadership model in place. Like for example, we have a structured small branch, medium branch depending on the AUM size, large branch, very large branch. So, we have organized the entire staffing and the branches, keeping in mind the book size so that we have every, like for example, every large and very large branch will have a person heading who is at least in the grade of a chief manager. So, those kind of templates we have put in place and the last two years of recruitment, the staffing, the promotion policy, everything that we have done, we have done keeping in mind that we are able to meet this kind of a requirement. So, larger branches will be headed by chief manager, medium branches will be headed by a senior manager. Then we have made MBSB which will be headed by a manager kind of a thing. Same way, at least up to the level of a large branch, we have ensured that not only the leader, that there is a branch manager, one level down also is in a particular managerial grade. So, that also we have ensured that, you know, that is happening. Same kind of a structuring we have done at the head office where at every department we have groomed in the second line. We have brought in people wherever necessary from the market also and we have put in place all the second line in each of the departments. Of course, one or

two, you know, gaps will be there where people leaving or things like that. Those kind of things is an ongoing process, but otherwise we have done that also. So, clearly, the idea is to ensure that succession planning happens not only at the top, but at the department level also, at the branch level also. That is the kind of thing that we have already done. Two, as I said, we have strengthened the assurance function. So, in terms of the risk compliance audit and legal, we have strengthened the entire teams. We have also seen that, in terms of the policy, in terms of our incentivization, we have a proper structure. So, that has also been put in place. We have a detailed training department which has been done so that we have. In fact, now we have just started that not only this is in terms of getting the people in place, now to ensure that the grooming also happens, we have also gone in for a leadership development program for all of them. We have also looking at training where certain people at the top are also being sent to external places. Some of them have gone to IIM, some of them have gone to XLRI, places like that. So, that also kind of happens.

Interviewer: Sure, sir. So, whenever possible, we can meet your team.

Interviewee 1: Sure, sure.

Interviewer: What is the current tier 1 risk rate? CEP1 risk rate for us.

Interviewee 1: Your capital adequacy. Tier 1 risk is almost 24%. Tier 2 is almost nothing. We have, I think that one small tier 2 thing was there, there also it has become zero risk rate. The weightage has been zero.

Interviewer: Generally, what is our dividend policy and any plans to increase the same?

Interviewee 1: See, we have already corrected in the last two years. Earlier, if you see two, three years back, our dividend was very, very low and our dividend payout was almost 7%, 8% only, dividend payout ratio. Now, we have kind of zeroed that, we would want to keep it around 20%. And gradually in the last two, three years, you would have seen we have increased the dividend payout so that it has now reached to last year, it was around 14%. 14% to 15% or something was the dividend payout last year. So, I think 20% is the kind of thing, we would be anywhere 18% to 20% is where we would like to kind of stabilize it.

Interviewer: Even that RCEP1 ratio is decently ahead of requirement, means you could have either, so leverage kind of takes longer time to come back in that sense for the ROEs to go up.

Interviewee 1: Not really, today we have a 17%, 18% ROE, 20% dividend payouts and net accretion is about 14%, 14.2% approximately. Adding currently we, so next year onwards when we reach 15% growth, AUM growth, I think we will slowly start consuming the capital. But the thing is today in the process in the last three years, our debt equity gearing has come down from 8 plus to now it is almost 6.6 or something. So, we have at least rating agencies for our rating continuity are okay with up to 8x, but I think at 7.5 is where we would like to stop. So, we still have a good

amount of opportunity in terms of gearing to take it up from 6.6 to around up to 7.5. So, I think another two, three years should be a problem.

Interviewer: Sure sir. Thank you.

Interviewee 1: Thank you.