



“Can Fin Homes Limited Conference Call”

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**SPEAKER: MR. SURESH IYER – MANAGING DIRECTOR & CHIEF
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Interviewer:

I mean, our agenda is to start coverage on housing finance space, that is a space that is still not yet under our active coverage. Our idea is to kind of to cover both the spaces, one space that is typically the affordable what we say, and then there are now two, three listed names that is more of a universal housing also. Once again, I mean, of course since HDFC was not there, for time being there was a vacuum in that space because you did not have HDFC there. Bajaj Housing was then not listed, and a couple of names listed were having their own problems.

So, then now, again, the space has got pretty so we have so many affordable names listed, so many universal listed. Again, having seen this company for long, I did not know exactly where you would like to classify yourself or fit yourself, because I would not think exactly affordable-affordable per se like because your forte has been salaried. The moment you say salaried typically the affordable tag goes away.

Suresh Iyer:

That is very true. You are right because we actually are not technically an affordable because our average ticket size is Rs. 25 lakhs. Unlike most affordable housing finance companies, our presence also is mostly in the district headquarters or big cities only. So, we do not have that kind of a geographical penetration like some of the affordable housing finance companies have. And typically affordable housing finance companies would have a ticket size below Rs. 15 lakhs, our is Rs. 25 lakhs.

So we are I would say, below the radar of the large companies because we do not want to come in any fight with the big banks because we do not want to be into that ROI race. And second, we are not in that affordable. And as you rightly said, 70% of our customer base is salaried. And mainly, 86% of our lending is to the housing sector. So we do not have much of LAP, we do not have a lease rental discounting, we do not have other top-up loan as a product. I mean, we have some loans but it is not aggressively sold. So, mainly we cater to the core constituency which is first-time homebuyers, and most of our properties invariably are self-occupied residential properties.

Interviewer:

Exactly. I mean, for that reason, to be honest, I mean, barring one or two episodes over the last five, six years that has come as, I would say, a variation. Largely your business model is very, very, I would say, straightforward, simple as far as an analyst modeling is concerned, and that is where my question or discussion will be more again around a top-level strategy, as you rightly said. And that is where the debate keeps typically coming. So like your strategy so far has worked, I would say, reasonably well that, I would say, slightly or the second-tier ticket size around metros and urban centers lending to salaried class plain vanilla product mostly, and it has delivered numbers because of course AAA rating has allowed you to do all this because your cost of funding anyone.

Now typically when it comes to discussion the question comes that okay, the strategy that has served us well so far, is it going to serve you well over the next 10 years 15 years, and are you going to continue? So three, four questions; salaried versus non-salaried are you looking to bring

any change given your scale, size, competition? Or the general geographical penetration in terms of deepening, are you happy with this current strategy that will it work for next 10, 15 years? Or you will be looking to kind of deepen your kind of presence there?

And then thirdly, again, in terms of I would say a bit of a sourcing and all, are you looking to grow the affordable housing finance more or you are happy? So your strategy in terms of distribution, in terms of geographic presence, in terms of customer collection, and product, these four parameters has served you really well. So the question is that do you still stick to saying that, okay, this will serve me well for next 10 years or you are looking to some tinker? Tinkering I can see some bit, but just something.

Suresh Iyer:

Absolutely right. In fact, if you see in our presentation, we have our Roadmap '28, so this is basically the strategy that we are looking at. In terms of geographical penetration that you are speaking, we were having almost 73% of a business as a strategy only coming from the five southern states, so we want to slightly change it and at least incrementally we would like to have a 60-40 business, 60% coming from the south because we still have a lot of branches in the south.

But we would like to have more business coming from the rest of the geographies also, that is mainly West and North which already are very well developed housing markets, a good amount of competition is there. The documentation process, the land laws, the revenue records and everything are properly laid out and clearly available. So there we would like to expand and that is what we have already started.

So today if you look at it, we are already having close to one-third of the business coming from the two zones of North and West. So, roughly if I have to say, if you are doing about Rs. 900 crores of business, then about Rs. 300 crores of business is coming from these two particular zones. So almost one-third is coming from these zones. So we have already started that little bit of shift.

What we have done for it is we have added more branches in the North and in the West. So out of the 44 branches that we have added, probably about 30-plus branches are only in these three zones of North and West. So that is one thing. And that is not because we are entering new geographies, we are already present in those markets. We only want to expand a little more because there are a lot of good opportunities, good Tier-2 towns, Tier-1 towns available there where we can get good amount of business. So that's basically there.

The second point, the segment housing, non-housing, we were at 89:11, 89% to 11% as of March '23, we are okay to take it up to 80-20, because some of top-up loans, some of LAP loans, there are good opportunities. And we would like to look at it so that some bit of support in terms of a yield is also there. So that is already there, we have slightly increased from our present 89%, 11%, we already made it up to 85%, 15% or 86%, 14%, that has already happened.

Third is in terms of our salaried versus self-employed, again, it was 73:27 or 72:28 or somewhat there was, now we have already brought it down to 70:30. And the main reason is that now more and more people are filing returns, getting the returns and validating the returns is also much easier. We have also tied up with Karzaa whereby we can directly pull the return that have been finalized income tax department, we can download those returns, so we do not even have to depend on the CA certified returns or the self-attested IT returns. So that gives us a little more comfort so we are a little more open to doing a little more of self-employed.

So these are basically small tinkering a little bit here and there, but by and large if you still look at our focus, in the near-term future also we would still like to do majority is housing loans, more focus on the salaried segment, and in the Tier-1 towns and outskirts of metro towns only. However, geographically we would like to expand, there are good opportunities, our target is to make it to 300 branches by March '28. We are 249 today, so another 23, 25 branches we might have to open in the next two years.

Interviewer:

So just on that part, that periphery of metro and being into maybe the Tier-1 centers, I mean, the discussions or, I would say, debate was again, I mean, particularly the public sector banks are being very, very active and aggressive. So, I mean, maybe five year back their balance sheet was bad, say they had many limitations, today the balance sheet is a very, very good say, corporate lending is not picking up, and that's why in the mortgage they are very aggressive. And this 25, 30, 35, 40 that is also their sweet spot, they haven't seen.

So that is where some of the housing companies typically they say that, okay, that for us we have to go a bit deeper into geography because now you are kind of first sticking to this thing that, okay, you want to play to your strength, like I would say periphery of a likes of maybe a Bangalore, Thane and Mysore, and then maybe going to the likes of say, in north it could be Jaipur or Mohali or Bhopal and all, but not going deeper into these. Do you see this, I mean, again, the size can come as a reason that, okay, you are still Rs. 40,000 crore loan book, but do you see any kind of a challenge coming from these public sector banks being aggressive?

Suresh Iyer:

See, the public sector banks is not going to be as much of a challenge as probably some of the larger HFCs. Frankly speaking, public sector banks like for example Canberra Bank for that matter has an average ticket size of Rs. 35 lakhs, okay. If you look at bigger banks like SBI, HDFC, ICICI, Axis, they are predominantly in the metros and the bigger towns in the corporation limits. Like if you go deeper into Devanahalli or the newly developing areas where the infrastructure is yet not fully developed but housing has started coming up, those areas the banks may not be the funds to enter first, that is where we enter in.

Of course, later on when these areas become well developed areas, there is a possibility banks may also open branches there, they will also try to take over our loans, loans will also shift, that is a natural phenomenon. But when it comes to entering these markets, we are the first movers there and we will do it.

By and large even today our competition, when you look at the takeovers happening, it is LIC and Bajaj who are doing most of our takeovers. And yes, LIC is very much in the market that we are. Bajaj also which earlier had a higher ticket size probably will want to come a little lower because they are facing the pressure from the bigger banks. But banks per say coming into center is still a little while, I mean, I think as of now I do not foresee it in the near future happening. And even if it all the pressure is there, I think they would more become more aggressive in the bigger towns rather than going deeper. So I believe the competition for us is likely to get more aggressive more from Bajaj and from LIC than from maybe an HDFC bank or an SBI.

Interviewer:

Yeah, the important point I was about to ask that, okay, I mean, you rightly pointed out that LIC Housing, of course, at a older larger scale is a by and large kind of I would say a reasonable competitor to you, similar ticket sizes, dependence on salaried, more into I mean pure home loan. Again, when they do the adventurous thing outside home loan of course the outcomes are not that desirable, but they do. So in that case, they have been kind of a struggling on growth. You being a Karnataka focused, I mean, so what is kind of working for you? Because Karnataka had its issues last year, and so LIC being much diversified should not occur but they are struggling, despite you are saying that okay they are taking BT-in, but of course the BT-out is also troubling them, but is it just the scale?

Suresh Iyer:

I think it is only scale. Today at their base of Rs. 3 lakh crores plus, the amount of growth they have to do just to sustain their growth, assuming 14%, 15% is a normal rundown, so on a Rs. 3 lakh crores base they have to anyway do Rs. 45,000 crores a year otherwise they will not be able to sustain the regular rundown also. So I think that is where the difference is coming in. For us it is a much smaller number so we are able to ramp it up and still show the growth. But otherwise, LIC is having that pressure I believe, they are being very competitive, their cost of borrowing is also low so they have been offering very competitive rates, and probably they are also trying to protect their book, that is why they are compelled to probably offer those kind of rates of 7.5% matching the banks. Whereas for us we can afford to be a little higher and we are not that compromised on our spreads. But I guess because of the pressure that they face and the size at which they are right now, I think the pressure is still there.

Interviewer:

How you deal with the BT-outs? Like as you said like Bajaj and LIC is taking the case from you to them, so what benefit customer gets that you are unable to retain them? And what are the actions you are taking to retain those kind of customers?

Suresh Iyer:

A very valid point. See, the challenge that we face is particularly LIC because of the rates, okay. So mainly customers go for two things only; one, they get a better rate; and two, they get a top-up, okay. Better rate obviously we have selected or chosen not to offer those kind of aggressive rates and compromise on our spreads. So, therefore, at our base today we can afford to let some go because we can still cover it up on a smaller base. So, we do not want to compromise on the spread. So, sometimes the loans particularly to LIC, the loans are flowing mainly because of the rate of interest that they are offering.

As regards Bajaj, the loans are going mainly because they are offering with a top-up. So, in fact, there was a question as to Bajaj used to be doing Rs. 40 lakhs, how come they are taking up a Rs. 20 lakh loans. The question is, they look at a Rs. 20 lakh loan with a top-up. The question is, the top-up whether it is possible, how much of it is possible? If the customer we can afford and the property value is justified, I mean, we also would be keen to give it. But if according to our valuations it is not justified or within our policy norms it is not justified, we may not be able to offer it.

Like for example a customer takes a loan, we do not offer a top-up unless the customer has serviced a one year, has got a one year track record even though if it is with us. So, sometimes if that happens and we are not allowed within our policy norms then we have to let it go. Sometimes it could also be that their valuations are a little more aggressive, in which case again we may not find it possible within our norms to allow that kind of a top-up. Because when it comes to top-up we technically probably offer a lower LTV than what they are offering.

Interviewer: Yeah. So I guess top-up or sometime back I guess Bajaj had this housing, was kind of a PBC. You were going to this 50% limit of pure home loan, so they got a little less aggressive in the top-up side because that top-up does not qualify for that thing. So they were almost near the breach I guess, so they were turning less aggressive, I do not know what their status is now.

Suresh Iyer: So, I do not know what is the present status, I guess their pure home loans is about 57% today I guess, last time that I checked.

Interviewer: And then top-up also you have two rules from the other way, like 20% of the home loan amount you can give as home equity and rest will be considered as a LAP, right?

Suresh Iyer: There is no such rule which clearly says. Okay, they may accept up to 20% that you can give it, but that also I think classification has to be non-housing. The home loan rate is different a different thing. It is a commercial call, rate is absolutely a commercial call where RBI doesn't come in, pure homes I am saying. But if it is a top-up, even if it is not directly going for construction or purchase, then it has to be classified as a non-housing. It has to be classified, we classify it as a non-housing.

Interviewer: That C what you classify?

Suresh Iyer: CRE. So, that is a non-housing.

Interviewer: So, I guess that's 57% number I recall. I guess based on AUM, but for NHBs we will look into the on-balancing part, so there was some bit of I guess near 50% or so at some point. Now, in terms of sourcing, I mean, your DSA has been, in this ticket size generally I mean in the higher ticket size DSAs are more active, how come you are sort of sourcing? And are you going, again, there I guess **(Inaudible 0:17:10.5)** is the target there. But realistically speaking, why I mean the DSA dependency remains unlike in this ticket size?

Again, LIC may have also their own sales force, and how this kind of this higher DSA dependency is there? And how do you see this 60% I can see the target, but is it possible to be brought down maybe lower or something like a lot of housing finance companies have? Or is it a conscious call you are taking because that way also your OpEx is pretty low?

Suresh Iyer:

See, actually it is not that competition is not having DSAs. I think other players are also even showing trust, maybe they have a lot of huge feet-on-street, but Home Trust or some more of the others are also having a high dependency. Now it's whether we call them DSAs, but they are DSAs or connectors, in which ways you can call them, because the payout that we make is 0.4% to 0.75% or something, so that's roughly 0.4% to 0.7% is what we give to connectors only. So basically it is there, how we want to do it is, we are developing our own internal sales team.

Actually the company did not have any sales team. Canfin total staff strength is about 1,311, not 1,300 plus, a little more than that. Budget for the entire year is 1,380, probably we will be around 1,330, 1,340 by now probably, exact numbers. So, we do not have any outsourced staffing, we do not have any subsidiary, we do not have any DMEs or DSTs who are on a small fixed amount of Rs. 15,000, Rs. 18,000 and then everything is. So we do not have that segment also. So therefore, since there was no sales team and we were operating on a very thin staff, somehow the DSA reliance has been the higher side.

That's why we are now developing; one, our own sales team internally. We have started with last year maybe with about a small team of eight people and then we have been consistently ramping it up. And by March '28 we would like to take it up to around 250 people so that at least on a monthly basis we are able to get about Rs. 250 crores monthly flow coming from that particular channel. So that's basically the plan that we are having. And that's how this percentage of DSA reliance will start coming down. That is what we are looking at.

Interviewer:

And will this process lead to any meaningful increase in cost or it should be okay?

Suresh Iyer:

Cost wise I do not think it is so accretive or anything. It is not because of the cost considerations, it's more from; one, that we want to diversify our sourcing mix. Two, we want to have our own team selecting the segment and product that we want to offer to the customer rather than depending on the DSA who will bring whatever they want to give to us. So that is advantage. And we believe that going forward the stickiness of the business sourced by our own team will be a little better. So the benefit is going to be more from the stickiness and from the selection of customers.

Interviewer:

DSA has an eye for BT-in, BT-out.

Suresh Iyer:

Correct. So that is basically the more of the thing. I do not think it's a more cost accretive model or anything like that.

- Interviewer:** Yeah, cost should be neutral, I mean, what you are suggesting kind of a Rs. 1 crore a month kind of a dispersal per staff. So typically if 0.5%, Rs. 50,000 you would have paid, staff plus fixed cost for him and desk and all.
- Suresh Iyer:** Yes, broadly neutral.
- Interviewer:** Sir, as you said like your payout to DSA is similar to kind of connectors. So what motivates DSAs to come to you? Because there are people who are like offering 80 bps even 100 bps also on a home loan of a higher ticket size. And your ticket size is also low, for them it won't be much attractive like if they do a like Rs. 75 lakh loan with either Bajaj or ABCap, they will get a higher payout by putting less of effort.
- Suresh Iyer:** See, there you are talking about corporate agents. The corporate agents have a much larger setup. They have their own offices, they have invested in software, they have their own monitoring and aspiration matrix and mechanism and all those kind of things. So there is a fair amount of investment that goes into corporate DSAs. Whereas in case of the people whom we appoint as DSAs, they are basically individuals. So they are local people who are in the finance market. They are either insurance agents, deposit agents, they are maybe chartered accountants, stuff like that. So for them this is just a small revenue stream for them. And they are not having the capacity to invest into any IT software or anything, or a CRM kind of a thing, or a lead generation model or something like that. Therefore they are basically individuals, unlike the corporate ones who have all those systems.
- Interviewer:** And even in recent quarter like though you have a high strategy to reduce the dependency on DSAs, because if I see like from Q1 to Q2, our DSA count has significantly increased, like there was a quite jump.
- Suresh Iyer:** No, but roughly if you look at it, around 1,500 is the rough amount of DSAs we are having. Some quarters what we do is renewal takes time, we have a 11-month renewal process. Every year they have to renew. We have to once again review their performance. So it is basically a process. But roughly if you look at it, it is about 1,500 DSAs. Some months you may say it is 1,200 by 1,200. It has not gone down, it is just that the renewal has not happened on that particular cut-off date. So that is just a number I think. But clearly it is about 1,500 approximate, give and take a few is where our DSA numbers stand.
- Interviewer:** And do you also sort of have this, because you are not funding kind of any project and all, so any thoughts there? Because, I mean, in some cases you get some kind of a lead or a sourcing properly on this housing loan side because you have funded a project, you have some kind of a thing. So any thought process there or you want to be just pure retail?
- Suresh Iyer:** Well, we have done some small exposures with developers in the past. It is just that currently we are not doing it. Even if at all we do it, it will be just incidental but not in a major way. As of

now there is no such plan. We would like to be retail only. At least not for the moment, we do not have a plan as of the immediate.

Interviewer: Sir, any specific reason that you do not want to touch that part? Because those are like, it can give you like accelerated growth.

Suresh Iyer: It can give a delta, no doubt about it. It can give a delta. But at the same time, the developer finance can, in fact, there are other advantages in the sense that we can get our retail loans also from those people, there is no doubt about it. But actually developer finance monitoring, developer finance funding itself, all those things require a little different skill set. We need to develop a team internally. Right now our team is purely retail focused. So we need to develop a team. So that is one of the things. If at all we do it, we will require three, four people at least dedicatedly doing for developer finance. And we will have to have our policy and everything in place, so that is the only thing.

Interviewer: Similarly as you said like your salaried SEMP mix would be like 80-20 going forward. But given that you get more and more data to process and you can underwrite SEMP profile better and there you have a bit of advantage on the yield side. Then why not increase that segment because most of the companies now they are focusing heavily towards SEMP. Now they have 60-40 mix like they are focusing like 60% SEMP and 40% salaried, because salaried you do not have an advantage to charge that high yield.

Suresh Iyer: So actually from 73% salaried we have said we are likely to bring it down to about 65% salaried by March '28. So it is actually not 80%, it will be 65%. And incrementally if you look at it, about 40% of our incremental business is self-employed today, and that is how this mix is slowly changing on the book.

Interviewer: And what would be the difference in yield what you charge to like basic?

Suresh Iyer: At least 50 basis points higher we are charging.

Interviewer: And how would be the experience on the credit cost?

Suresh Iyer: Credit cost, SEMP is a little higher, but still our overall is 0.94% so our target is somewhere in the range of 0.6% to 0.65%, our self-employed is in the range of about 1.5% to 1.7%.

Interviewer: And this is a bit, I would say, a more seasonal question. So are you seeing kind of a increased level of balance transfer activity after rate cuts and all?

Suresh Iyer: Q2, yes, we have experienced a little higher. In fact Q1 if you look at it, our total BT plus part payments plus monetization was around Rs. 1,400 odd crores for the quarter which has increased to Rs. 1,660 crores, so it has slightly increased. About Rs. 202 crores or additional we witnessed a higher assurance. Of course not entirely was requirement of loan closures, only about 120

was closures. But our balance 83% was partial payment, but the customers loans are still live with us. Okay.

Interviewer: And now with this December rate cut and possibility of February, how do you see March? I mean, because by Feb of course I know it will be too late, but that kind of a clouds a bit of a March and even the next quarter is there is another rate cut in Feb.

Suresh Iyer: No. So we have actually further reduced, passed another 10 bps to our customers effective December, so that takes a total pass on this thing to 35 basis points. And this is existing home loan customers as well as to our new customers. So 35 bps is already done. And once this additional 25 bps which is announced on Feb comes to us, probably around Jan end or something we may take a call to further reduce another 10 bps. We may be able to see that kind of a benefit.

Interviewer: And today what sort of for new home loan what is your kind of entry rate you are offering?

Suresh Iyer: The lowest we are offering is around 8.6%. We were offering 8.95% prior to January '25. Now 35 bps has been passed on, so 8.6% is the lowest.

Interviewer: So of the total 125 bps you are going to pass on somewhere close to 50 bps?

Suresh Iyer: 45 to 50, yeah.

Interviewer: But all 125 bps will not come to him as well because buying market is casually pricing?

Suresh Iyer: Yeah, yeah. 31st March our cost of borrowing was 7.55%, it has come down to 7.17%. So therefore 38 bps drop, we have passed on 35 bps. Again now this 25 bps has been there, I believe another 10 bps will accrue to us, so 7.17% should come to around 7.05% or something will be our cost of borrowing. So another 10 bps definitely is doable.

Interviewer: So on your bank loan side how much of that or for you, I mean, your bank loan side how much of that is external benchmark and how much is --?

Suresh Iyer: Zero MCLR linked.

Interviewer: All are repo linked?

Suresh Iyer: 80% repo linked, 20% is T-bill linked.

Interviewer: External. So basically the pass through.

Suresh Iyer: Yeah, yeah. That is how we have been able to pass the full benefit to our customers.

Interviewer: So your resale period for customers are also like immediate basis or it is quarterly?

- Suresh Iyer:** It is quarterly. So it is on the month in which it is there. Suppose somebody has taken in the month of April so it will be April, July, October and January will be the reset period.
- Interviewer:** Okay. So it is working for each and every customer like three months.
- Suresh Iyer:** It will be three months. Of course we do have portfolio which was prior to January 2024 where customers have still not moved on to quarterly reset. We are now pushing them to move, because what happens is whatever prepayment we have witnessed, most of them are annual reset customers. And the reason is that their reset has not happened so they believe, and I believe it is our failure that we have not been able to correctly communicate to them that they are eligible for a reduction. Although we send monthly reminders and everything, but maybe we have not taken that extra.
- That is what we are doing right now, we are trying to give targets to our branches to convert those customers into quarterly so that their transmission also happens. So maybe the ones who have gone believe that Canfin has not given the rate reduction, whereas actually we have given 35 basis points to them. So we are now very keen to immediately call them and do it. So we are giving targets to branches to convert those customers also.
- Interviewer:** So what impact it will have on our overall teams then? Because some pass on is still there.
- Suresh Iyer:** Yeah. So we have factored in all those things and then only we are giving this benefit of 35 basis points. I believe it will not be impacting much. Because while on that side it is there, on our liability side also our actual incremental cost of borrowing is lower. Today if you look at it prior to December 5th, our highest cost of borrowing from banks was at 7.10%, even lower than the 7.17% of the our borrowing cost. Our NCP is at 6.05%. Our NHV we have just raised Rs. 500 crores at 6.3%. So if you look at the money that is coming is even lower than the cost of borrowing today for us, so effectively that will also slightly come down. And that is what we believe will be offset by what we will be passing on to the annual reset customers when we move them to quarterly reset.
- Interviewer:** And sir how are situation in Karnataka and Hyderabad right now? Because on call you said things are improving, so by when do you think it will normalize? Because Karnataka issue is long persisting, like it has been going on for a long time.
- Suresh Iyer:** One year. It started from September. In fact the Hyderabad issue is old.
- Interviewer:** It is very old issue and that continues. E-Khaata and that A-Khaata, B-Khaata and all.
- Suresh Iyer:** No, A-Khaata, B-Khaata was anyway not an issue because we knew there were players who were doing B-Khaata, some were not doing.
- Interviewer:** Because B-Khaata we used to take an indemnity and we used to move forward.

Suresh Iyer:

Not really. We do not take their indemnity, we still take the appliance only. So by and large we are taking those cases where the plans are available and it is there only those cases we are doing. Now E-Khaata actually has affected business. A-Khaata, B-Khaata was anyway there. It is E-Khaata where the problem has happened. At least for the corporation limits and these parts it is already resolved. It is happening quite fast now, it is not an issue. Only in the cases where customers do not have documents, they do not get it. But anyway such customers we also would not have funded. So, that is not a problem for us.

Panchayat is still not happening. But in spite of that, with a little more push in the other BBMP areas or a little bit of LAP and all, we have at least taken back our level of disbursements from what had fallen to Rs. 150 crores we have brought it back to roughly around Rs. 250 crores average per month. So, it is still lower than what would have been had this E-Khaata issue not happened, probably we would have been doing Rs. 300 crores today. But we are doing Rs. 250 crores per month. But still at least you have brought it back to Rs. 250 levels. And it is month on month improving, so I think that is not a problem. Karnataka by end of the year will be 10% positive for the year. Already when we end Q3 I am sure it will be positive, YTD positive in Karnataka also.

Telangana actually has been an older issue, because E-Khaata started only in September '24. But we have been facing issues in Telangana even prior to that, right from the time the change of government happened and they started demolishing properties, under the Hydra department they started demolishing properties. There I think it became more of a sentiment issue and it became also that the prices also started going down in some places. So, I think there I believe it is a little slower than what we would have preferred to. But we are doing approximately Rs. 100 crores a month. So, by end of the year we should probably end flat in Telangana. It may not be a positive for us.

Interviewer:

Sir, overall growth like how do you see, like even today we are like more concentrated in Hyderabad and Karnataka basically. Now, given that on the past call you have been guiding like you are going to see like 15% to 16% growth. Whereas, if I see other companies of similar size, they are growing like about 20% and there are some players who are like even big players are guiding for 22% to 25% growth. So, what is our restriction, like what difference they are doing compared to us?

Suresh Iyer:

See, the major difference I would say is that right know we have stuck to our core constituency, our core business which is funding for housing and funding for preferably self-occupied residential property. Therefore, the players who have been growing, particularly the affordable housing companies who are growing at a much faster pace. But actually if you look at the growth in the affordable segment, it is sub 10%. The growth is coming more from the LRBs, the LAPs, small ticket LAP or top-ups. So, obviously, these are products which are, a little bit of developer financing and all which we are not doing. So, that is the one thing. And we have consciously chosen not to do it because our core business focus has been into the salaried and the housing

segment only where we have had a good measure of success because throughout the last 10 years or more we have never had a gross NPA of more than 1%, and that also without having a right of policy.

Interviewer: I did not get that.

Suresh Iyer: Many companies have a GNPA of 1.2%, 1.4%, 1.7% or whatever, that is also after having a write-off policy where if an account remains an NPA for more than two years they will write it off. So, there is a charge to the P&L every year. We have not had that in spite of that our GNPA's are less than 1%.

Interviewer: So, you do not have any right of policy, it will stay in Stage 3?

Suresh Iyer: Stay in Stage 3. So, therefore, our Stage 3 you can say is staying normal. We have aging of more than three years, more than five years also in Stage 3.

Interviewer: So, we do not even transfer to ARC and all in those transactions?

Suresh Iyer: No, we do not. That is what I am saying. So, we do not have any such activity. In spite of that, our entire legacy portfolio also we are still carrying a less than 1% GNPA.

Interviewer: Sir, like pre-COVID your asset quality was much superior what it is today. So, how do you see it going forward, like will it go back to that level or it is going to stay where it is today?

Suresh Iyer: I believe pre-COVID when it was general portfolio, our gross NPAs were around 0.9 was the gross NPA. Then COVID happened, so many of our cases which are in Stage 2, either in SMA 2, and some of the newly moved NPA cases which were as on 31st March which was a cut off of 2020 not in NPA, those accounts could be restructured and could be moved out of NPA. That is where the numbers came down. But technically if you look at it, the customer had already demonstrated a weakness in their repayment capacity.

So, I think the real NPA was also anyway 0.9 only, and that is where we are right now also. So, because there was a government scheme where we could move some of our SMA 2 and NPA 2 regular by capitalizing the interest, but that actually did not change the nature of the customer, the customer had already demonstrated a weakness in payment. So, I think 0.9 is the real NPA and I think that is where we are right now also.

Interviewer: Sir, how are these new government policies faring, PMA 2.0, how those are helping out?

Suresh Iyer: So, far the pickup has been a little slow, but last year also, I mean last year means last time in CLSS also the first year was quite slow. Then the supply started coming in because obviously even if some new builder decides to come into the supply it will take some time, approvals will take some time, then the whole planning, acquiring the land then the approvals. So, it will take

time. So, maybe this time also we can hope something will pick up but so far it has been not been very encouraging.

Interviewer: And the CLSS changes that they have brought into new, I mean, is it kind of having positive impact or negative? Because when it came, I would say, a lot of housing finance companies were sounding enthusiastic. I am not sure because of the design, already we have looked far I would say simple and transparent borrower, that okay at the optimal level Rs. 9 lakh, Rs. 10 lakh loan you are getting a Rs. 2 lakh, Rs. 2.25 lakh, depending upon the discount rate and all. Even if you take a Rs. 15 lakh whatsoever loan, government subvention is coming that the cap is Rs. 2 lakh. Now I guess the cap has got Rs. 1.80 lakhs or something.

Suresh Iyer: Rs. 1.80 lakhs over five years.

Interviewer: And that restriction coming that okay earlier it was also flexible, I mean, again, one as a financier may agree/disagree, like/dislike. But at least from a borrower perspective simply you have got it, later on you want to take a BT do it nothing, I guess in the new scheme also you have to be with that financier.

Suresh Iyer: Same lending institution for five years, and even a little default is not allowed. The moment it happens, your future --

Interviewer: Yeah that is what I heard that there is some hesitation also that what if because of this my financier is not resetting the interest rate lower and all why should I stay, because you are giving me subvention but the other hand he is taking. So the flexibility has come that time it has appeared, so I do not know if it was a government design, it was the input from I do not know.

Suresh Iyer: I do not know, I mean maybe I am not sure the government. Obviously, government has been taking feedback from the entities, and a lot of smaller affordable housing finance company did cry foul that our portfolio is being taken over. And therefore this change has come, and now this change I do not think is benefiting the affordable housing companies.

Interviewer: Yeah, because as a borrower also it's lack of trust, you are saying that okay --

Suresh Iyer: I am not sure that that feedback was sound.

Interviewer: Yeah, I agree. I would say, as an industry you cannot prosper with the so-called helplessness of customer, you want to lock them, locking is never a good product, not a good idea.

Suresh Iyer: I think I fully agree with you, in fact that is the whole objective. The government if you look at it has been very clear that the customers interest have to be protected. Because if you see, they came up with this guideline that zero prepayment charges have to be there for variable rate customers. And you cannot bind the customer and say that I will levy exorbitant prepayment charges. So the objective of the government is very clear, the customer cannot be this thing, and

I think it is a very fair policy. It is a very fair policy, customer has to be given that freedom. We are in the service industry so service has to be the defining factor.

Interviewer: In your case today, I mean, all your loans are completely starting floating or you also offer like a two year, three year?

Suresh Iyer: No, it is all floating.

Interviewer: Yeah. Of the total portfolio everything is floating now, because many of them are fixed?

Suresh Iyer: No, no, we only have a little bit of portfolio which is only I think staff loans and all which are fixed, otherwise I would say 98%, 99% is all floating.

Interviewer: Yeah, yeah, so that is where I mean some of the your smaller peers use that, okay, just to stop BT they start with a three year fixed rate so that if you are transferring in those three years I will charge you then. Exactly so that would have been idea that okay typically I can give this. And that is where the customer hesitation, that you are giving me Rs. 36,000 as a subvention but what if my company is not resetting the interest, they might be charging me that extra.

Suresh Iyer: No, I agree. See, today also I think there are only two companies, to my knowledge, that is LIC and us which has really passed on the whatever rate benefit has come through the existing customers as well, among the exceptions. So, people have benefited from the rate of interest because NHB has also cut for its refinance has cut its ELR. So, they have also benefited on the NHB portion definitely. Even on the portion which is linked to this thing, they have benefited. The CP rates have come down, all of them do have a large CP exposures as well, so on that also they have benefited on the rate of interest, but nothing has been passed on to the customers.

Interviewer: In your case, I mean, of course the rate cut benefit will come, but even if the rate cuts were to say take up all, some of your bonds that you will be refinancing maybe that you would have kind of borrowed in 2022, 2023, if the rates environment hold at the current level they still will be gradual benefit cost of fund?

Suresh Iyer: Yes like right I think we have a 7.85% MCD which is coming for I think maturity very shortly. That will obviously get repriced around 7.3%, so 50 basis points we are going to get.

Interviewer: That will cost of money as well, yes. Now, another important point you raised that the core affordable growth is basically 10 odd percent. Now, what will it take and when do you think that we will kind of see some pickup? And what would be the kind of, in your view, assessment a more sustainable considering all the demand of housing and all, what we will be sustainable underlying? Because you rightly said, some of the commentaries, over bullish commentaries could be that okay a lot many I would say the lenders promoted by private equity they have to kind of create a narrative, but what's the sustainable kind of a number you see that affordable housing can grow? And 10% I would say in the nominal terms is sub-par.

Suresh Iyer:

I will tell you, before the CLSS came and supplies came in a big way into the market and there was a good incentivization with the government, the growth rate of affordable housing was also in the 10%, 12% only, okay. What changed was the CLSS, that brought in a huge amount of supply because there was a good amount of incentive for the developers, they got a good amount of demand. Because, see affordable housing is a slow pickup business, unlike you have premium segment or a middle segment where the sales happen faster, affordable housing sales happen much slower. So, there is no incentive for the developers to come into this in a big way. Individual self-construction houses can continue, they will continue in the normal course, no big great supply is going to make any big major difference in them.

So, if major supply has to come it has to come, there has to be an incentive for developers to be given. And that was provided in CLSS, because they could easily say that okay a Rs. 15 lakh property you are getting Rs. 2.5 lakh write back so effectively you are getting this property for Rs. 12.5 lakh, and that was a decent amount of incentive for builders to sell and for customers to buy it. Now, with all these things, and the builder does not get any benefit because this Rs. 1.8 lakh also will come as Rs. 35,000, Rs. 35,000, Rs. 35,000, in which nothing is going to come to the developer, there is still no incentive for the developer to start coming in with supply. So, I think supply is what is going to make a big impact in this market.

Interviewer:

So, if I have to simplify I can say, without a right kind of an incentivization from the government policy maker, it could be state, it could be center, it could be municipality, the underlying growth in particularly the apartment or flat kind of affordable is going to be 10 odd percent. The self-constructed in a Taluka and town that is a different thing, that is a different thing. But the formalized apartment flat model of affordable can show a higher growth only if there is a some catalyst from the government side, otherwise this is a new norm, rather a new norm.

Suresh Iyer:

That is how it is, I believe that.

Interviewer:

Sir, how is our structure like, branch structure and a role structure?

Suresh Iyer:

See, branches, we have 249 branches. It is a 3 tier structure, branches are clubbed into zones. So, we have six zones, and mostly geography related. So, Karnataka with close to 45 odd branches is one zone. Telangana which again has 19 branches, but in terms of the AUM is larger therefore, that is also about Rs. 7,000 crore AUM, Rs. 7,500 crore AUM. So, that is a separate zone. Tamil Nadu with around Rs. 6,800 crore AUM and about close to 50 branches is again including Kerala and Pondicherry is again another zone for us.

Then north is a zone which has about Rs. 5,500 crore AUM which is Punjab, Haryana, Delhi, Uttarakhand and UP. And then west zone which is actually a very large zone in terms of geography which is Rajasthan, Gujarat, MP and Maharashtra, that is another large zone for us, but has a AUM of about Rs. 5,500 crores.

And then AP and east, which is we have two branches in Chhattisgarh, we have four branches in Orissa, we have three branches in Bihar and West Bengal. They are all put together is a separate east zone for us where the AUM is also much lower at around Rs. 3,500 crores. So, that is how it is. So, branches report to a zone, zone reports to the head office. And we have local sanctioning powers depending on the grade and depending on the tenure of the staff with us, up to a maximum of 835 lakhs in the branch level. Beyond that up to say Rs. 1 crore is at the zone. So, by and large we know almost I would say 98%, 99% of the loans get sanctioned either at the branch or at the zones. Approximately 75% happens at the branch, 25% happens at the zone. That is how it happens.

Interviewer: And how is the reporting of the credit and sales?

Suresh Iyer: Sales, we have a separate vertical now, we have a separate zonal sales, we have a national sales head who is based out of Delhi and from there we are running this whole sales team. They report directly to this. Otherwise, it is a branch zone concept where the sanctioning everything happens over there. So, zonal office we have staff in the zonal offices who are doing the monitoring, oversight, checking, compliance all those things is managed by the zonal office.

Interviewer: And how about legal technical, everything is internal or we are dependent on the external?

Suresh Iyer: Of course we have advocates, empaneled advocates, we have empaneled valuers. And we also have a separate advocate firm which is having pan-India presence over and above the people who are empaneled advocates. So, the empaneled advocates use the LSR or the search report, based on who is the legal title and all is established and verified and checked. But once the loan is closed, I mean, it is completed and the disbursement happens and the documents are collected, this other form verifies all the documents.

Interviewer: Okay, not the same firm.

Suresh Iyer: Not the same form. It has to be a different.

Interviewer: Generally it is a practice like the one who has done the LSR they only.

Suresh Iyer: So, that is why it is a second which is actually look into it, that other firm also has an empaneled advocate. They pan-India look at this at every branch after the disbursement is done to see whether the documents have all been properly collected, the correct documents have been collected, and perfection of security is there and all those things, and then the docketing is done. So, advocates we have on the panel, we have this firm on the panel, we have valuers on the panel, and we also have this tool for our valuers so that all of them can use the mobile app for the valuations and all the valuations are done without any deviations and stuff like that.

- Interviewer:** Your business is not that collection intensive, but as you said you do not have much of outsource or anything like that. So, what would be typically, I mean, what will be out of the 1,350 and all collection team you have?
- Suresh Iyer:** See, every branch depending on the size and all we do have people who are identified, but it is not that they are only doing collection, they are also doing branch. But yeah, we know these are people who are focusing on this. So, every branch we know who is the person who is doing SMA-2 and who is doing the regular calling.
- Interviewer:** Yeah, your business is not typically of collection because housing loan that too also.
- Suresh Iyer:** 90% plus, 90% almost of our customers have given match. So, month on month anyway the money comes, it is only the older customers and some of the customers.
- Interviewer:** And we have one EMI cycle for in the month or we have two cycles?
- Suresh Iyer:** No, for every customer it is either a 5th or 10th now, 5th or 10th of a month.
- Interviewer:** What is the bounce rate typically?
- Suresh Iyer:** Bounce rate is about 8%, 9%.
- Interviewer:** Including technical bounces?
- Suresh Iyer:** Including technical bounces. All bounce put together is about 9%, 9.5% not more.
- Interviewer:** And how much would be like insufficient balance bounce, if we adjust for this?
- Suresh Iyer:** We do not have too much.
- Interviewer:** And sir, when does a branch reach to a breaking point, like a new branch when you start? And what is the cost incurred towards a new branch?
- Suresh Iyer:** See, a new branch normally we start with three people. So, the total cost of our internal infrastructure, that is the furniture and all those things and all, electrification and all, it all roughly about Rs. 7 lakhs to Rs. 10 lakhs not more than that, that is a one-time cost. That is the capital cost rate. As I said three people, so on an average the staff cost would be around Rs. 1.2 lakhs to Rs. 1.5 lakhs.
- Interviewer:** Is that one operations?
- Suresh Iyer:** You can say that, that is what. So, effectively three people, so effectively about Rs. 1.25 lakhs to Rs. 1.5 lakhs would be the salary cost of one person, Rs. 15 lakhs to Rs. 18 lakhs per annum.

So, if you look at it, the branch reaches a portfolio size of about Rs. 25 crores to Rs. 30 crores, branch you can say is breakeven. That is the kind of setup.

To reach that Rs. 25 crores to Rs. 30 crores, it takes anywhere close to 18 months to 24 months. So, if it is a slightly newer geography, it may be up to 24 months also. But by and large, if it is an existing geography, about 18 months. Because by the end of the 6th month at least it should be reaching a level of Rs. 1 crore per month disbursement. Then by the end of the one year they should be reaching at least Rs. 2 crores. So, by and large, by the end of their 18th month, you can say, they are somewhere around Rs. 25 crores to Rs. 30 crores.

Interviewer:

And what sort of are the filters when you are looking for expansion? I mean, of course, you have like a bit of a geography here, but now if I have to say like open five more branches, even if you decide that okay five I have to go in north, five I have to go in east, first that okay at the broader level you can have certain kind of a geographic market, but within that how do you pick sort of a the catchment area or the pocket that it is five in east whether I am going to periphery of Kolkata or I am finding bonus or better, so what will be driving these decisions?

Suresh Iyer:

See, first of all, we have the broader decision that we want to focus now more on the north and west. And of course, with the kind of problem that we are presently facing in Karnataka and Telangana, we chose not to have a single branch opening in these two states. I mean, in the last two, three years that we have been opening branches, we have not opened any branch in either of the two states.

Initially, even our AP was a little slow. But after this change of government, after the Naidu government coming in there is a lot of sentiment improvement and really things are looking up. So, now we are positive that we should be looking at that state more aggressively. So, we have opened five branches now in that state.

North and west, by and large we still had a lot of untapped areas. So, from every branch we do this micro market study and all those things which are the areas which are developing and where some new infrastructure is coming up. Like today when we say Vishakhapatnam, we have so many in the infrastructure.

Interviewer:

In your framework, Vizag and Amaravati will be fitting, like the banks will take time few years before that.

Suresh Iyer:

So, we have opened at least we have opened Dombivli, we opened Amalapuram, we have opened one more branch in Vizag, we have opened Penruthi, we have opened branches in UP also, then one in Punjab.

Interviewer:

Yes, perhaps your framework where you kind of, as you said, I mean you go kind of first mover perhaps on AP and UP will be right now the state because many pockets will offer opportunities, things are moving.

- Suresh Iyer:** So, closer to Delhi, North UP which is closer to Delhi, Noida and all those things, we have opened quite a few, Saranpur, Bareilly, Hapur, Meerut.
- Interviewer:** And with that RRTS thing going probably Meerut will also see your kind of a customer.
- Suresh Iyer:** Yes, yes.
- Interviewer:** And sir, you have been implementing new IT software in the company, by when like implementation will be over and what will be the recurring cost of the same? Because implementation cost, installation cost is around those Rs. 240 crore per year, right?
- Suresh Iyer:** Our total CapEx for the entire project is about Rs. 100 crores. So the project is in two, three phases, we had the infrastructure part, the security part and the applications of it. The infrastructure and security is almost completely done, and like we have done the SD-WAN, we have done the Microsoft upgrade, we have done the SOC, NOC, all those things with all those DMS and DLP solutions and all those things, they are done, SD-WAN set up and all.
- Now, in the application side, we have the LOS, LMS and this deposit which is under testing, UAT testing field right now. HRMS has been implemented, DMS is ready. Our treasury banking and borrowing module is implemented. Our Aadhaar data vault is also implemented. So, these three are pending. So, we are like expecting it to be around January kind of where we will be able to implement it.
- December in fact is the deadline by which we will be completing a deposit module, but the implementation will happen along with LOS, LMS only. So, LOS, LMS is expected to be done by around testing and everything by January, that is the plan. So, we are looking at when it gets completed. Once the testing and everything is done, then we will take a call of the implementation. But definitely, by Q1 FY '27 everything will be completed.
- Interviewer:** And what would be the recurring cost?
- Suresh Iyer:** And the cost wise, see, there is a Rs. 100 crore CapEx, Rs. 200 crore OpEx, and therefore the annual cost would be approximately Rs. 60 crores would be the impact on the OpEx, including the depreciation and this thing side, about Rs. 60 crore per year, roughly. Currently, we are already spending Rs. 20 crores, so the net delta would be around Rs. 40 crore per year.
- Interviewer:** And it will be completely independent system, right? Earlier infrastructure is shared with Canberra Bank, right?
- Suresh Iyer:** No, no, we never had been shared. It was always independent then also, it will be independent now also. They have their own home loan product. It is Rs. 1,14,000 crores, Rs. 1,15,000 crores book Canberra Bank is having and completely separate.

Interviewer: Now, coming to one part of your thing, of course you have a depository taking license, that is a good thing. But practically, I mean, your all other borrowings, typically your source of fund, typically, I would believe the more cost efficient than going for borrowing and deployments.

Suresh Iyer: Yes.

Interviewer: So, I mean, when can that be an advantage for you? I mean, of course, having that is of course, I would say that it is not sticky.

Suresh Iyer: Yeah, it is not forced. So, of course, as and when you want you can raise, you just can be silent. But barring the times of I mean I would say that probably the high yield environment and all, generally at your scale, typically, all other means, I mean, be it the bank borrowing, be it the bond market, I think at your rating, you will get better than going for deposit.

Interviewer: And does that explain that, I mean, you have a very, very, a smaller dependence on deposit?

Suresh Iyer: Yes, small deposits and we are just holding on to the deposits and there is of course a huge amount of trust which the customers have on us. Therefore, we do get a lot of enquiries. So, we just service our customers and provide that as an option. But aggressively, we are not doing for deposit because, obviously, the cost of a deposit today is at least 50 basis points higher than what we would otherwise get in the market. Today, we are offering deposits in the range of about 7.5% and 7.75% for a three-year cumulative deposit. Now, I am getting somewhat at 7.10%. That was pre-rate cutting, December 5th rate cutting.

Interviewer: And this deposit will also bring that SLR requirement and all?

Suresh Iyer: Yes. That is additional cost. Yes, that is a SLR requirement, yes.

Interviewer: Yeah, because I mean your model and everything, I mean, very, very stable, I would say. Lastly, I mean, I will touch again. I know that, okay, you have answered it many times, it is a very old issue now. Any sort of now, fear and everything, whatever happened in Punjab?

Suresh Iyer: Ambala, yeah.

Interviewer: Yeah, Ambala. Now, of course, the lessons learnt a lot of, I mean, I would say that, okay, has there been any kind of a closure incidents or anything, that kind of a thing that you have come across post that? How many, two years or three years? Yeah, it was July '23. Yeah, more than two years. So, of course, the license and implementation I see, any kind of, I would say a fractional risk for any sort of a compliance breach later on you found at any of the other places. And again, if at the risk of repetition, what went wrong there? Was it a kind of a too aggressive in terms of expanding to new geography where you do not have?

Suresh Iyer:

No, no, no, it was not at all, because of this thing, it was not an asset related fraud, to be very frank. It was not a lending kind of a thing, it was purely, and it is really very sad, but the fact is that it was basically a problem in the back of his control and nothing else. There was local check signing powers which were misused by the person and it took a while to be noticed, it went on for a fairly long amount of time and that was the basic problem. It had nothing to do with assets where there was a problem in the wrong asset selection, wrong customer selection, it was just somebody who had the check signing powers was writing off checks and showing a wrong reconsideration statements.

Now, all those loopholes we have kind of plugged. Lot of things we have had to centralize, it has, of course, also affected a lot of business because we have tightened a lot of things on the business side. We had to go through the pain where our growth, our disbursements actually fell from Rs. 8,900 crores to Rs. 8,100 crores and Rs. 8,500 crores. After almost three years we will now be crossing that limit of Rs. 8,900 crores, which we had breached back then. So, definitely that impact has been there. And we have fairly strengthened on all our assurance functions, risk compliance, audit, legal.

And a lot of additional costs have had to be incurred, like as I said this second advocate firm which is doing the checking of the documentation. All those things we have had, we have introduced after this so that there are adequate checks and balances in the system even if it comes at the cost of some more payouts and OpEx costs and all those things. We have done all those things. So, post that not much, we have not come across any major kind of issue over here.

Operational efficiencies, I would still believe there are some possibilities, opportunities are there, but that is more of this. But control wise, in fact, it was a two-tier structure at that point in time, branches and directly head office. So, all 200 odd branches were monitored from head office. Therefore, the zonal concept that we introduced last year was mainly so that there is also a proper team, there is a lot more oversight at the ground level through the zonal offices. We have a proper team and we have six, seven 7 people exclusively looking at all the control aspects from the zonal office. So, that is what it is.

Interviewer:

And lastly, I mean in terms of how the matrix looks, I mean, so broadly the ROAs of this 2.2%, 2.4% ballpark, 6.5x kind of a leverage, effectively 17%, 18% ROE, this is where you would like to operate?

Suresh Iyer:

We would like to operate. We have actually, because our growth rates have been lower than the ROE, therefore our gearing has been coming down. But otherwise, up to 7.5x I think we do not have a problem. So, there is a good amount of leverage available there also, where we can still fund our growth without having to look at it.

Interviewer:

Yeah. So, even if the growth were theoretically to come back to say 20% plus so one, two years you do not need capital, because you are generating 17%, 18% you are saying that, okay, we still have a leverage and scope.

Suresh Iyer: Yes.

Interviewer: So, 20% plus growth also you can support for a couple of years.

Suresh Iyer: For a couple of years, yes.

Interviewer: Anything else you think that, okay, that could be meaningful? Because in terms of, that is why, I mean, like we continue to focus on the more of the business side strategy. Your number wise, I mean, your model looks very, very straight forward. So, that is easier.

Suresh Iyer: It is a little boring, but it is for us, we are comfortable.

Interviewer: No, no, that is okay, I have to understand that I would say the mechanics underlying those numbers, because numbers are relatively easier to forecast, only thing I need to know the mechanics underlying it, because the model is very, very straightforward. I mean, not much of volatility, not asset quality, not much volatility on credit cost, things have pretty smooth and that is why the end outcome is also very predictable.

Suresh Iyer: That is it. So, I think we would like to keep it that way also, not much of experimenting on that.

Interviewer: Thank you a lot.

Suresh Iyer: Thank you so much.