



“Can Fin Homes Limited

Conference Call”

January 28, 2026



MANAGEMENT: MR.– CAN FIN HOMES LIMITED

Analyst: [Abrupt start 00:00:00] Part of the team of Malaysia Sovereign Fund, we look at equity investments in India, the public equity space. And so, in that sense, we just wanted to have a meeting to get to know your company better. And also your view on where you see the industry, what's the potential going forward. How do you segment the market, whether it's based by incomes or regions, and how you're seeing the overall lay of the land. That's what...

Executive: So, you want me to also talk about the company?

Analyst: Yes. And in that, like, you know, where do you fit in the industry?

Executive: Okay. So, basically, we are a Canara Bank promoted housing finance company. So, the bank itself is also doing housing finance, but as a separate subsidiary also they are doing housing finance. The segments are a little different. Geographies, of course, Can Fin is now present in 21 states. We have a network of 249 branches.

And we are -- but right from the beginning, we were set up, Canara Bank was quite clear about that, this company will be mainly into housing finance only. So that's why our focus area, if you look at it, has been purely housing. We have almost 84% of our loans are either housing including the CRE portion of it. So, the non-housing, which lack top-up, and everything, only about 16% today. Just a minute. We have tea, coffee, [inaudible 0:01:36]?

Analyst: What [inaudible 0:01:39]?

Executive: Fine, you can -- black tea?

Analyst: Black coffee.

Executive: Black coffee or whatever.

Analyst: Tea.

Executive: Tea, black coffee or -- and so, mainly it has been -- focus has been on housing, pure, you know, preferably first-time home buyers. Second thing is being coming from a parentage of a very conservative lender, we also have been having the same kind of an approach to lending. So, even our portfolio, if you look at it, almost 70% is today salaried segment.

And we have been a little more conservative in terms of the lending, in terms of the customer selection. So, this is basically the broad two points which are key to it. Although, as part of our strategy, we have a slight alteration we are looking at, which I'll come to it a little later part. But -- so these are the two major things.

Right from the beginning, we have been present in the major metros as well as in the Tier 1 towns. So, we don't have a very deep geographical presence like some of the affordable housing finance companies. And we, our ticket size also, if you look at it, is slightly above the affordable housing finance players.

So, while many of them would be having anywhere between INR5 lakhs, I mean INR8 lakhs to INR12 lakhs, INR11 lakhs, INR15 lakhs, our ticket size today is about INR26 lakhs. For

housing, and for non-housing it is about INR14 lakhs. That's the incremental business ticket size that we are doing.

So basically, our sweet spot or our customer is basically the ones who are having around INR60,000 to INR1 lakh monthly income, family income, is what is our customer segment. And 70%, as I said, is salaried. So basically, in terms of the income and all, there's a stability of income is much higher.

In terms of our performance, there's been a consistent dividend paying company throughout it right from the day the company was set up, and has gone to the, gone for listing, we have had a dividend paying history, the profit-making history. And in terms of our capital adequacy, in terms of our other ratios, I think we are pretty well established in that sense, that our capital adequacy is in the range of about 24% plus.

In terms of our ROA and ROE, we have been consistently managing our ROA about 2. Right now, I think it is around 2.4. And ROE is in the range of about 17 to 18. So that's the kind of matrix that we have been operating. In terms of the quality of the portfolio, as I said, it's a conservative lending and a conservative approach we have taken.

So, in the last 10 years at least, you will see our annual report, we have the published data. Our gross NPAs have always been below 1%. Okay. So, in some sense, you can also say that probably we have not taken enough risk. Okay, that is one way to look at it, but fine. I mean, coming from this kind of a background, we are -- been a very conservative lender.

In terms of our branches, we -- or in terms of our geographical presence, of course, Bangalore is the base because we started off from Bangalore. Canara Bank is also Bangalore based. So Can Fin also obviously is Bangalore based. So, we have a larger presence and a larger market share or a portfolio concentration in the South.

So today, we have about 60-odd percentage of our branches are in the South. But in terms of business, we have close to 68%, 69% of our business is in the South. So that is on the AUM. Incrementally, of course, in the last 2, 3 years, we have tried to have a slight re-orientation and things like that.

So, in the last vision document that we had, as I was telling, we'll come back to it later. So, there are, in the 2023 when we sat down and drew up the Vision 28 document, 5-year strategy plan. So, there were four major things we have looked at. One, we want to -- from that, at that time we were about 72% of our book, our portfolio was South-based, the five Southern states.

So, from that 72, 20 or 72, 73 percentage, we would like to bring it down to around 60:40, at least in terms of incremental business and all those things is what we said. By '28 we would like to do that. Incidentally, already we have reached that place, position where incremental business, if you look at it, we are 60:40, 60 coming from the South and 40 from the rest of it.

Now how we did it was we have expanded in the last 3 years by opening branches more in the North and the West zones, which are well established housing markets. And there we already had presence, but we have expanded to nearby geographies, and we have opened almost -- we

opened actually 44 branches in the last 3 years. So that's how we have done it and we have changed the slight mix.

The second focus area was that at -- in '23 we were having about 86% of the business coming through a DSA channel, single channel-based thing. We wanted to slightly diversify our sourcing mix and so we said we'll also set up an internal sales team, so some of it should come from our sales team, some through digital because we -- our digital onboarding should also increase. So that's how it is.

So, by '28 we would like to bring down our DSA sourcing to about 60%, and 20% from our direct sales team and remaining 20% through either digital or through walk-ins and repeat customers.

The third thing that we said was from our 80, you know, we had about at that point in time 89% of our loans were housing and only 11% was not housing in '23. So, we said we are okay to move it to around 80:20. And in that journey in the last 2 years, we have slightly moved from 89, 11% to, and 11% to around 84 and 16. So that also journey we have taken, but we would at least still want to go focus about 80% into housing.

The third thing was we had a 70, at that point in time 73% salaried and 27% self-employed. We said we are okay to slightly shift it because now we have more people filing returns, we have GST returns as surrogate income proof, we have more transparency in all those things and better ways to assess the income. So, we said we are okay to move it from our 73% to a 65%.

So, these are the four things in the geographical mix, sourcing mix, then product mix, and last is the segment mix. These are the four pillars for our vision document. And on that, we have been moving in this last 2 to 3 years, we have moved in that direction towards our goals that we have set. But we have at least even during this -- all these shifts, we have ensured that our quality of the portfolio is not compromised and we have ensured that our NPA levels are below 1%. In fact, right now also it is 0.92%.

Another thing is in the last four quarters consistently, we've had, you know, while there was this MFI issue, while there was this personal loans issues and all those things and some impact on some other segments also, but in our case at least for the last four quarters consistently, in absolute value, we have been able to bring down our delinquency also in absolute value.

So, obviously in percentage terms also it has been coming down, but in absolute value it has come down. And right now, if you look at the quarterly results, we had about 10% plus in, 10% AUM growth. We've had in terms of disbursement, this year we've had a 19% disbursement growth Y-o-Y as of December. And delinquency, as I said, it's been coming down for the last four quarters. And so, in terms of delinquency, it's again comfortable position. And cost to income and other ratios also have been maintained.

One positive thing in the last, since the last rate cut cycle has started, is that we've been able to slightly improve our spread and NIMs. That's mainly because while whatever is in terms of our cost of borrowing, we have experienced, we have passed on to our customers. However, you know, we still have some customers who are on the asset side on an annual reset basis.

Whereas on the liability side, whatever loans we have are repo linked or T-bill linked, so the transmission on the liability side happens faster, whereas on the asset side, it has been a slightly delayed. So that has, so while whatever is the cost of borrowing has come down, in fact it has come down by about 40 bps, we've passed on 50 bps to our customers.

But because of this time difference or time lag, we have slightly improved our spread and NIMs. So today, our spreads stand at around 2.83% and our NIMs is at 4% -- in fact, it is 4% approximately in terms of this. And in terms of the guidance, we have generally been giving that we would be around 2.75 spread and 3.75 NIM, so that's what we would like to operate.

And as I said, our credit costs have been quite low. In fact, our guidance for credit costs has been about 15 bps, although this year it's below 10 bps. So, in that direction, that is one positive thing. It's quite low compared to the other, many other players, and even our cost to income ratio is low. So, because of that, if you look at the ROA tree, basically we are able to from a, you know, 3.75 NIM, we're still able to maintain a 2.2 to 2.4 ROA.

Analyst: So, ROE how much?

Executive: ROE is around 17, 18. Now it's close to 17 or 18 as it is.

Analyst: Very healthy. And NPA also very healthy?

Executive: So, as I said, the two things are we've been able to keep a lean structure and therefore our cost to income ratios are well under control, and even our credit costs because of the quality of portfolio and the focus on the two segment and everything, we've been able to...

Analyst: Will there be any change in growth expectations? Like, we have been -- I know we are very conservative, but see all the banks, the credit, at least seems like asset cycle is quite okay, right? There is...

Executive: Yes. So, I'll link it to the, in fact one part of the question which I missed out is that in terms of the housing market equity, you can basically break it up into three. One is the prime segment, which is the high-ticket size INR50 lakhs plus or in fact more than INR75 lakhs plus segment. Mainly it is dominated by the large players and banks, SBI, HDFC, ICICI, Axis, okay. And a little bit to Bajaj Finance and LIC Housing Finance.

Then comes the mid segment, okay. The mid segment will be anywhere in the INR20 lakhs to INR75 lakhs segment is what is -- it is where we are operating, and that also in the lower end of that particular segment is where we are operating. Now if you look at the growth, this particular segment, the mid segment has been growing around 12% to 13%. Only is what the data shows in terms of our ICRA, CRISIL, all of them they look at it, they have been also guiding this thing.

Even the data as regards the inquiries and everything which is coming from our CIBIL or CRIF or Experian and Equifax, that also shows roughly the same kind of a lead generation, lead gen and conversions. So basically, that particular segment where we are operating has been growing at this segment.

Affordable has actually slightly gone below in the sub single-digit growth levels. And premium segment is still growing at a higher rate. But again, that is a segment which is very price sensitive, and that is not a segment where we would want to directly compete with the, because we cannot compete with the banks in terms of the price advantage that they have.

So, we are comfortable with this segment where what we do is we look at the, you know, even in the metros that we are operating, we generally are in the periphery areas where the first-time home buyers are the ones who buy the property. These would be the developing areas which maybe after 5, 7, 10 years when they are well developed, the loans will probably move to the banks, they will get poached and all. But these are the areas where we do.

And second thing is, we look at a slightly lower income segment that the ticket size. So today, if you look at Bangalore, Bombay and all, you can't have a property at this price. But you can, have to go about 30 kilometers outskirts of Bombay, outskirts of Bangalore to look at a property around INR40 lakhs, INR50 lakhs, INR60 lakhs.

- Analyst:** So, in -- so generally your branch expansion has to be more beyond metros right now?
- Executive:** So, branch expansion, yes, periphery is also one, plus we are also looking at Tier 1 towns. So, like Bikaner, Pali, Ujjain, Hapur, Saharanpur, these are the kind of properties that we have opened.
- Analyst:** And in terms of competition, you must be having competition from both banks and affordable?
- Executive:** Not as much from banks because banks, of course, they do take over, some loans do go to them. But then by and large the competition is from some of the larger HFCs and like LIC Housing Finance, Bajaj and PNBHFL. These would be the three main ones. Some, of course, some banks here and there, depending on the branch manager or things like that, there could be some limit on the competition.
- Analyst:** In terms of geographies, which ones are, are all of them doing the same in terms of growth and credit quality?
- Executive:** See, in the -- okay, in the last 2 years, actually we had a little bit of a slowdown in Karnataka and Telangana.
- Analyst:** Okay, why was that?
- Executive:** Because in Karnataka, last year in September, they introduced this e-Khata, the new requirement of e-Khata. So, because of that almost registrations, the SROs and everything kind of almost slowed down or became kind of stopped because getting that e-Khata for any registration was a prerequisite and getting that e-Khata was a very cumbersome job initially, the government was also struggling to get it done.
- Analyst:** What was the reason for -- what is the use of this e-Khata, like what?
- Executive:** See, so basically, there is a, what the government's stated objective is that they want to digitize the entire transaction. Okay. But Karnataka incidentally was the first state in which in 2009 had

actually made our digital [registrations 0:16:42] mandatory, registrations mandatory and it was all digitized. But what has happened is, you know, there have been cases where there is a B-Khata, there is -- either there are Gram Panchayats which are giving most of the approvals.

Because technically, if you see today, Whitefield, okay, which is the hub of all the things, is actually was a rural area till about 5 years back. So, it was Gram Panchayat. So, the lot of, most of the approvals which have been given are Gram Panchayat and then there, those are not coming into the records, transactions, and a lot of other, so basically that was one of the objectives.

But I also feel one more major reason is that municipal tax payments has been very low. So, once they regularize all these things, getting the municipal tax and the revenue is also going to increase. In fact, that also was one of the documents, okay, if you have not paid your municipal tax, pay it and regularize it and then only you will get the e-Khata.

Analyst: Okay.

Executive: So, basically those kind of things have also happened. So, government has, in the longer run the government will benefit from this no doubt, tax collections will improve, therefore spending money on the infrastructure will improve. So obviously those benefits are there. But the stated thing was that it's for digitization, and I guess it's also mainly was required because there was a lot of areas have just developed on the outskirts.

Today, the branches which we opened in the last seven, eight years were all absolute outskirts of the city, but today they are all the areas where the development has actually gone 10, 15 kilometers beyond the place where we had a branch. So that's the kind of development that Bangalore has seen in the last 10, 15 years. So obviously, those areas were not coming under the corporation limits and...

Analyst: But this is now getting sorted?

Executive: It's, it's improving. Corporation limits and all those places, definitely yes, but it's still slow. I mean, if you go further deeper, if you go further away from the city corporation limits, it is becoming difficult. It is still not, but what has happened is in Q2 of last year, we were doing about INR275 crores approximate disbursement in Karnataka. It went down to INR150 crores in the third quarter of last year because this was implemented.

But slowly it has now improved and today in the last quarter, if you see we have done about INR741 crores in Karnataka, which is about INR250 crores. So within a year, it has almost come back to somewhere close to that level. That's where it is. Ideally, if this had not come, probably 275 would have been 325, 300-325 by now, so we are still technically speaking, yes, there is a this, but otherwise, at least from there, we have come back to the somewhat similar levels, you can say.

And the second area which is there is again Telangana. There also, post the change of the government, there what happened was, they came out with a separate department called hydra. In hydra what happened was they started demolishing properties, they started -- all those kind of things happened because the previous government had given approvals even in lake beds, in

government owned lands and all those things approvals were given. And so, the new government started taking action.

Obviously, but the problem was not of the customer. Because the customer had taken from the, you know, approved authority and the then elected government only had given it. So, but in the process when they initially started this activity, it impacted the sentiment a lot. Thereafter, the government then came out and realized and then they said, okay, we will not do demolition, but we will have to still take some action, we will send it, we will do the surveys, we will do this thing and they said we will give some approvals, which means they will do some impact cost or regularization fee or something they will levy and they will probably regularize it. That's, that's the objective.

So in that process, the, to some extent there was a drop in real estate prices in Telangana, particularly Hyderabad and all. Then there was also an issue of sentiment, so transactions kind of, people got scared whether to buy, invest and all. So that impacted. There, it's almost been six to eight months since the government stopped the demolition, so now at least the sentiment is okay, fine, there will be no more demolition, so people are a little more comfortable and slowly the prices have started coming up.

But because the prices went down, now customers started feeling, okay, there's nothing in it for me, my price is already more than the, cost has gone below my loan.

Analyst: Correct.

Executive: So there was some impact in delinquency, but that has now improved. Last one quarter, in fact last quarter, we had the delinquency improved in Telangana also. So other than that, there is no other geography issue or anything. Other than that, we have six zones technically. The other zones mainly North Zone, West Zone, Tamil Nadu, and also East Zone, they are all almost growing at around 25% plus, 25% to 30% plus they are showing growth.

Karnataka, because this issue from 275 dropped down, so the during the year, we had a negative impact, but in Q3 because it has picked up, at least we have slowly moved back into the positive and by end of the year, I think even Karnataka should end at 10% plus positive.

Analyst: Which should aid the overall growth.

Executive: Which will aid the overall growth and so now that this is the new base has been set, so next year when we look at it, compare with this year's base, obviously there'll be a better growth.

Analyst: So these two are the only main points, pain points?

Executive: I think the pain points are these two. Of course, there is one more point, but it is not a pain point, but it is more of a, it will have a little bit of impact, which I think you should know is that we have gone for an IT transformation. And the overall cost of the project is about INR300 crores, which is INR100 crores approx is the capex and INR200 crores is the opex and it's a seven-year is the contract period.

So that includes a complete overall of our IT on one application side, infrastructure side, and three security components. So all three are impacted and therefore it's a quite a big project per se. IBM has been the vendor which is emerged as a system implementer, and they've brought in LOS, LMS, deposits package, HRMS package, document management, Aadhaar Vault, and all those other things. So that project is going on.

Now, barring the LOS, LMS and deposits, the other modules including the infrastructure and security have almost been implemented and it has been, it is done. LOS, LMS is under a delivery and testing phase. Deposits almost end of the testing, I think by deadline is end of this month we should at least be done with the testing.

Then we'll see when to implement it. So this will be, most probably in the way it is happening is still getting the deliveries and we're still testing it, so I think LOS, LMS will probably be end of this quarter. So we may push it into the implementation into the next quarter because it's a very critical quarter. It may not impact Q4 We may probably implement in the first quarter the LOS, LMS and our deposits.

Analyst: There'll be some business impact, right?

Executive: Yes, Q1 generally is a softer quarter, so it'll be something which even if it is a little impact, we should be able to absorb it. So that's the idea.

Analyst: Specifically in Bangalore or in IT centers, Pune, Bangalore, what's the feeling you're getting there, given that IT industry last year we've been seeing is it'll be being stressful in the last two years actually?

Executive: Correct.

Analyst: Growth is less and the situation on whether they have a job or not is kind of sword hanging over, so until the demand side pulls back, at least the hiring situation's not going to change too much. So is that impacting? I don't know how much you're exposed to these, but so what do you see in Bangalore, how much of your clientele would be IT sector related?

Executive: See, overall, we have about 6% of our customers who are IT sector related in the entire book, we have about 6% who are in somewhere related because it's not only Bangalore, it's Hyderabad also a big center. We have almost 30 plus branches in Bangalore, in and around Bangalore and we have about 13 branches in Hyderabad. And then four branches in Pune. So obviously we are there. But overall the book is about 6% of the book is about 6% IT-related. It's not been a major thing.

And as I said the IT sector is -- they've generally been high, higher paying jobs and mostly it is double income families and all. So there by and large the segment normally goes for a big ticket loans and all, don't come in that, this INR26 lakh segment. And even whatever little or few cases where we would have got from IT sector would probably be the data entry jobs and slightly lower end of the jobs that they would be there. So there, of course, impact would be there because, you know, when AI comes in and all, it's obviously going to be those monotonous repetitive jobs which will be taken over by AI.

Analyst: Correct.

Executive: So yes that is a thing, but so far it has not impacted in our delinquencies, which is quite visible. Obviously is also because the incomes has also gone up and while that is on the one side of it, the other side of it is that now we are also hearing a lot about these GCCs and thing, things changing over. So by and large, I think there could be some pain, but we don't expect much to be there. And if you look at the IT as I said, the majority, the real, IT this thing is anyway on the, not our segment the ones who take loans.

Analyst: So generally, your customers, as you said around earning INR50,000 to INR1 lakh family earning, right?

Executive: Correct.

Analyst: So they must be largely employed with the SME sector, will that be right to understand or they're mostly self-employed guys? Because then affordable housing I think they will -- must be largely like INR50,000 earning family member?

Executive: So today if you give, I think the breakup, I think it's there in our presentation, we have about government jobs is about 14%.

Analyst: Okay.

Executive: And we have 51% of the salaried segment that we have is actually private sector. So as you rightly said, SMEs or it could be smaller employers are the ones who are mainly our customers. So, because if you look at the bigger players and all, the salaried segment would be slightly higher and they would probably look at a bigger property. But yes, 51% is that and then 6% is IT and then we have self-employed, which again would be this. So 51 plus self-employed 30% would be kind of the small enterprises only.

Analyst: Until now, my, my reason was some company have been talking about impact of say, tariff related stuff because they're exporting maybe textiles and all, maybe jewellery. Are you seeing that impact or it's like one, and secondly with like we just did a deal yesterday and this will actually labour-intensive job may increase in some private labour. Is that going to benefit us?

Executive: See, right now, this is a little too early to say about this because anyway it'll take a year for this to be signed and all those things. But what you're talking about this diamond and all those things, like yes, you're right, there have been some commentary about places like Tiruppur and all those places and Surat diamonds and all those things.

We don't have much of a presence in both these locations although we have a branch in Surat and we have a branch in Tiruppur, but both are very small branches for us. So it's not a major thing. And again, even within Tiruppur, even in our Tiruppur branch, I think 50% if not 70, at least would be salaried segment, which would be not necessarily impacted by that.

Analyst:

You've highlighted about this brand IBM. So what sort of automation also are we planning, like, you know, is there chances of some cost benefits coming from this implementation, like or quick generation of loans, like, you know?

Executive:

Productivity improvement, yes, that is where we are looking at it because some of the things we've already automated in a sense that our PAN, our ITR, bank statement, all these things, that's a common, now it's almost done, those are not -- but yes, what will happen is there are lot of other productivity improvement will come in, plus we are trying to -- our previous software was a, was a pure LOS, LMS only kind of a software, so we didn't have any ancillary third-party solutions and all integrated.

We didn't have an HRMS, we were and it was a local HRMS simple solution. So obviously, these are much evolved applications or that we are going to be implementing. So on the -- this side, it will definitely help. Another thing is we didn't have any digital presence. So that was as, that's why if you see 86% was only through DSAs. So now this will also open up a digital sourcing kind of a thing for us.

So that also can attract a new segment of customers as well as going forward, I think that is the segment, every nowadays, the next generation's not even going to come to the office and give an application and everything has to be online. So there has to be -- so I think from that point of view, it'll benefit. There will also be an advantage in the sense that our security, our infra capabilities that we have enhanced will give us some speed and all these things.

So TAT and all should come down a little bit. But mainly some of the things we have which we have further automated will enable us to release some of our people for field work or for sales and stuff like that. Benefits will definitely follow. Plus, the system automation and paperless itself adds so much. Decisions get faster, the flagging of problem areas comes quicker and once now we have a DMS, everything is there, so a lot of things can, need not have any paper movement at all.

If it has to go for a sanction, it can all be done from the -- without having any paper, single paper moving from the office to anywhere. Digital applications means without the customer this thing, a lot of papers we can, we can look at it. So, and those kind of things definitely benefit.

Analyst:

See, one thing I think we are impressed by is the low asset quality issues, which I think for lending is the key. Right. So you can, I don't think growth is a problem, can, how difficult is it to give away money, but is, I'm sure more takers always. But to categorize and be very disciplined and say, you know, credit quality I will not compromise on, even though, you know, we were, and that is our priority is I think best for a healthy long term.

Executive:

So, I think that is over a period that is what has helped us maintain because, compared to a lot of other things, we don't have any write-offs. In the entire history, I think of the company of 38 years, I believe I think the total write-off has been only about INR18 odd crores, which also includes some of the cases where maybe, we've had to write off because, we sold the property and where some balance which we could not recover less or something like that.

And including all the write-offs because of fraud if at all whatever. So basically, it's been, without having a write-off policy, without writing off every year and keeping a cleaner, so-called cleaner book also, we have been able to maintain a low, so as you rightly said and if you look at it, yes, there are always, people asking why not, why not 20% growth, why not 25% growth, but the issue is, obviously those it times, you know, could lead to higher delinquency and then the...

Analyst: All cycles. So at least our preference is to be where growth is predictable, everything's predictable, without having no, no big surprises and fluctuations coming is the best. But what's been the ROE history? So '17, how, how low does it go in the low of the cycle, how, how does it, you know?

So just so that we have a sense of, I mean, yes, clearly there'll be a cap based on right now, I think you'll have the advantage of NIM expansion. Even if it's not an exact thing, I'm saying...

Executive: Last year's, just numbers we'll see the last 10 year, of course this year I can tell you last year's this '25.

Analyst: We have, it's at '22 also at some point, ROE? 2017-18. But okay, we've been in the healthy range of 17-18. Yes, yes. So, we are in the average-ish sort of thing, yes, actually. Is there a market share data also that you guys follow in that segment? You said 10%-12% growth you've been doing that also, right? So, in that category, we are maintaining that market share or we...

Executive: Market share wise, I think we have been able to maintain. We may have slight last two years, when we were having these, you know, issues of Karnataka and Telangana, we may have slightly been there, but at least within the segments, if you look at it, we have maintained. We at least Karnataka and south, southern market, we have been a very strong player.

In our segment at least you can definitely say we have been the first choice for customers because in terms of the rate and everything, we have the advantage of the lowest cost of borrowing

Analyst: Because the deposits...

Executive: We accept, we do accept deposits, we are a deposit accepting HFC. But our deposit portfolio is very small because today, if you look at the rates that are being offered in the market for deposits, they are around 7% to 8% and all is what is, they have been offering at around 8%. Now when our today the banks long-term bank borrowing we are getting at below 7%.

From banks, nationalized banks are, are offering us term loans long-term 7-year, 10-year loan which are even better for our, from our ALM point of view, we are getting at sub-7. If you go for a unsecured NCD for a three-year or five-year, we are able to get it at 7.25 to 7.4. Probably now it may be slightly higher because the rate, but by and large I'm saying.

If you look at the short-term borrowing, that's, is even lower than that, it's we're getting at 7, 6.4, 6.5 from the banks. So basically, deposits has been a lower this thing. But what I'm saying is overall if you look at our overall cost of funds, we've had a very, one of the probably the lowest, LIC and Bajaj and us probably would be the lowest. So this allows us to offer a attractive rate also. So today the lowest rate we are offering is starting from around 8.10.

Analyst: That's quite good.

Executive: 8.10. And if you go to a bank, and the highest also would not be more than 12%. So, it is not that we, so that also would be for a non-housing self-employed with a slightly lower CIBIL score or something like that. So basically, the range is also much less. So where our rates end is where the others are starting.

So obviously when in the areas where we are present, the customer would, and what we are not comfortable with probably would be going to others also, because of the rate advantage. Of course, there would be some other issues also customers would want to, you know, reach and convenience and all those things, those are, those are of course they are there. But...

Analyst: But there'll be some NIM pressure, right, as you highlighted, as this repricing happens or something like...

Executive: So, as I said, whatever benefit in cost of borrowing we've had, we've passed on to our customer. So as on 31st of March, our, you know, borrowing cost was 7.55. Today it is 7.14. Okay. So about 40 basis points has come down. We've passed on 50 basis points to our customers. Okay. And the reason we've been able to pass on one, of course, is that, the last December rate cut is yet to, yet be experienced by us. So basically, that will also bring down our cost a little bit.

The other thing is, you know, in spite of passing on to the customers, what has happened is the annual reset customers are still, have not reduced their rates although we've passed on to this. They will get reset as and when their cycle comes.

Analyst: Cycle comes.

Executive: So that is because, that has helped us slightly improve our spread which was around 2.55 or something in March, it has gone up to now 2.83. It was 2.56 in March '25. Which is now gone up to 2.83. That's because of the difference in our reset period. This is the next year, one more year after being added. This is just the same, but one year has been added. 2.45.

Analyst: Okay. Right. Thank you. Thank you for that. Just one more question. When you expand beyond your, you know, Karnataka is your key market, when you've been expanding in other geographies in North or West, is there a different experience you or it's like, you know, don't have to, it's more cookie-cutter it has become for you, the way you approach?

Executive: No, see, normally if you were to, there's a general trend, I mean wherever any company pickup, it's a completely new geography even if, processes are very good, there is a little spike in delinquency. But in our case actually, the geographies north and west also that we are talking about are not new geographies because like our Jaipur office today is having a portfolio more than INR500 crores.

Delhi offices we have Gurgaon, we have Noida and we have Pitampura, all having portfolios more than INR500 crores because these are all old branches for us. These are all branches which were, which are more than 15 years old for us, 15 to 20 years old for us. We were present in all those geographies, but we are expanding a little more.

So the control staffing we have, our zonal head who is, heading the North Zone, is been with the company for more than 25 years. So it's not that, they are new geographies for us. Yes, if we were to say for example start, some new geography like, we say Jharkhand and we do more in Bihar and all, maybe we may, we are not present there. So that documentation will be new for us.

Analyst: You're present in UP?

Executive: We are present in UP. In fact, we had 10 branches, we are now having 22 branches in UP.

Analyst: So how is been the experience there? Because I think 10 lakhs to 25 lakhs you may find more growth.

Executive: The state is doing very well actually. The state recently also we had a meeting and all the state government has come out with a lot of, plans for activating all the urban local bodies. They have also, reviewed all the policies, setbacks norm, the FSI norms, all those kind of things, land use norms. So that way the government is very proactively doing a lot of housing and obviously looking to the population and all there's a huge possible options also or market is also very big there.

So we are, that's the reason we in the last two years we have opened about 12 more branches taking it from 10 to 22. So we were mostly present in the, bigger towns only. Now we are slightly, Saharanpur, Bareilly, this Gorakhpur, Mathura, we have opened those kind of locations also.

Analyst: I think it, it is safe to say that this segment can easily grow at 10%-12% for at least a decade or two, right?

Executive: Absolutely, absolutely.

Analyst: You can grow at 20, but then you'll have your issues in, in the cycle credit quality issue is right now? I think 12 with a, with a ROE of steady ROE of 15% to 20%, 15%, 16% that is what we can expect from?

Executive: Yes, yes. In fact, in the last many years we've not had to raise capital because, the ROE has been higher than the rate of growth. So basically we've been able to invest back and it's self-funding.

Analyst: Yes. That's true.

Executive: And second thing is, in terms of a gearing, our, we are a AAA rated company in all for our bank borrowings, for our NCDs, long-term NCDs, for our deposit also, and also for our commercial paper we are A1+. So we have got the highest rating from ICRA, CARE and also from India Rating. So in that sense, we are, the rating agencies are also comfortable up to a gearing of 8 times. Presently we are about 6.55. So even if, rate of growth picks up a little bit, we still have a scope to improve our gearing and still not have to go to the market.

Analyst: This INR25 lakh, INR26 lakh ticket size, what it would be 10 years back, like INR12 lakhs?

- Executive:** I guess yes. It would be around, what is 25 today, on an average about 5% to 7%, 5% is the, inflationary growth which is there every year. In between there was a period when it was actually shot up quite a bit because, labour cost, cost of bricks and all those things, it was suddenly had gone up. So that happens, but by and large, it is, you can say about 5% inflationary growth is definitely there. Like last year or 1.5, 2 years back our average ticket size was INR25 lakh, this year when we look at it is INR26 lakhs.
- Analyst:** Okay. Okay. So any from economic point of view you are like fine, right? Any stress you're worried about or just, not a very company specific, just as a banker you see where you are sales of team on ground you hearing something negative, positive, what?
- Executive:** I see in terms of this, internally for us, the challenges are one, we have IT implementation. Obviously, it'll have an impact whenever we implement it, a few maybe a week or something, we will have some -- we expect not disbursements not beyond INR300 crores of impact in terms of disbursement in the quarter in which we implement, but that is one thing which we'll have to do it.
- And the second thing is, with the rates going down, what has happened is, we are an intermediary, so we obviously don't have the same advantage in terms of rate like a bank does. So banks have reduced like before the rate cuts start, SBI was offering at 8.4 as the best rate, we were offering at 8.95. Okay. So there was a 55 basis points difference between the best rate for our customer or what SBI would offer.
- Now with 125 basis point reduction or repo rate cut, SBI has gone down from 8.4 to 7.15. We have been able to bring it down to 8.10, 8.20. So the gap has slightly increased. So obviously, it leads to some pressure on our prepayments or BT outs, which is reflected in the last couple of quarters.
- And the other thing is that, if the rate cycle were to turn, then in that case, this same annual reset might hurt us because, then on the liability side it'll go up and on the asset side it'll not go up.
- Analyst:** Okay. Correct.
- Executive:** So that is one thing which we are internally working on to convert our customers from annual reset to quarterly reset so that the matching or the transmission gap is reduced substantially.
- Analyst:** Okay. Fair. Okay.
- Executive:** So this are the internal challenges. As regards, external challenges, I think geopolitical as you said is always is one of the things, but I think another local, a little more local issue is, both Karnataka and this we had issues mainly when there is a change of government. So these things can impact. And I think we, had we thought of diversifying earlier maybe the impact would have been a little less on us. But anyway, whatever.
- Analyst:** It's not in the control, yes.

Executive: I mean, at least now we have gone for a diversification, so we will have a less, so even if, dependency on a single state or a single geography, can be a little bit of an issue.

Analyst: Okay. Great. Okay. Well, thank you very much for the time. Very, very insightful meeting.

Executive: Absolutely a pleasure.

Analyst: You travel to Mumbai or something sometime?

Executive: Yes, I mean Mumbai is quite regular because every quarter we have these roadshows, so what we travel to Bombay as know, after the record.

Analyst: Okay.