

Tunga Investments

“Tunga Investments

Conference Call”

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Questioner: So there has been a phase of growth. And then, it was like a stable thing. And if I look at from 2021 to 2026, we are around -- maybe around 200 branches or 210 branches, now we are around 250 branches, right? So, the...

Management: As we speak, we are at around 269 branches.

Questioner: 269 branches, so maybe, so...

Management: 20 branches we have added this year only.

Questioner: No, this year already you've added. This is the last...

Management: Yes. Further eight branches we have are listed.

Questioner: I am told 28 branches, 20 are added?

Management: Yes. 20 already opened. And some branches will be opening in the first week as well as there are three, four places where we have still not identified the premises. And I think except those three, all these branches will be opened by September.

Questioner: Because see, my association with, you know, in general, of any financial firms, especially housing finance, a critical aspect of growth comes from new branch openings, right?

Management: Correct.

Questioner: Now, we opened a lot of branches, and then there was stabilization because of IT-related stuff, or there was some issue in Punjab or something, right?

Management: So, Punjab, we didn't have any issue as such. There was some issue also, you are referring to 2023-'22 issue of Ambala. That was in Haryana.

Questioner: So is it so now -- I think we are opening maybe 12 branches. How many branches on an annual in '25 you opened?

Management: This year I know. This year we are opening 28 branches. Next year again, we do propose to have more than 25, 23, 24 branches at least. So we propose to take our total tally to more than 300 branches. At least 300 we have to touch by end of next financial year. That is 2027-2028.

Questioner: Okay, okay.

Management: So, this year, we will be closing at...

Questioner: In FY26 when you ended last year, how many branches were?

Management: 250.

Questioner: 250, Yes.

Management: 249.

Management: To be precise, one branch we just got opened in the first month.

Management: In the month of June, we opened one branch.

Questioner: Now, this year, it would be only 28 branches?

Management: Total 28, of which 20 have been opened so far.

Questioner: Okay.

Management: As on date.

Questioner: Okay.

Management: Sir, just to second what just MD Sir said and the story which you are trying to check. In the last three years, we have opened 59 branches. So, post that Ambala incident, our continuous focus was on to build on the necessary internal control in the organization to build that necessary guardrails around which we can start looking for growth. In that pursuit, we have opened 59 branches, and with a clear mindset of...

Questioner: Which is, I mean, when you open -- in 3 years, you open 59 branches. In 1 year itself you're opening 28 means, it's a...

Management: Now, since all those things are in place now, our new IT migration project is almost successful. As we speak today, almost 90-odd branches have already gone into the new package. This month, at the month, 1st of September, we are adding another 75, 80...

Management: 77.

Management: 75, 80 branches.

Questioner: You're going with which system now?

Management: We are procured a new IT system through this [inaudible 0:03:11], where IBM is the aggregator. So, that migration we started from 1st week of July. So, 1st week of July, we migrated on a pilot basis, five branches we had migrated. Then again, whatever new branches that we are opening post-July that we are opening in the new system only.

And then again, in the first week of August, we opened -- added more existing 75 branches. So, old branches, 80 branches we have migrated to the new system, as well as this 20 branches what we are referring to, that has also been opened in the new system only.

Questioner: Okay.

Management: So again, next -- this week only, we propose to migrate another -- today is the closing date of this month, August. So, first week -- this week only, we propose to migrate another 77 branches. So, with that we'll be somewhere in the range of 157-60 branches will be migrated, old ones.

And remaining whatever branches will be remaining, say, around 90 branches will be remaining, that we will be migrating in the first week of October.

Questioner: Okay.

Management: So, with that, our complete transformation will be completed.

Questioner: How much we are spending for this totally?

Management: Total cost is around INR296 crores, of which...

Management: INR100 crores is capex and INR200 crores is opex, which will be like accruing over the next 7 years period for licensing costs and all those things.

Questioner: Every year around INR30 crores?

Management: INR40 crores.

Questioner: INR40 crores will be there spent for opex. And this capex, you will capitalize it -- fully capitalize it?

Management: Yes, I think we have depreciation.

Management: We have only capitalized some of it.

Management: It is kept as capital WIP now, Work in Progress. The moment we go live and put to use the entire systems then we'll start getting the depreciation expenditure. And when you say, what are the systems? So it's a complete overhaul of the entire IT.

Questioner: Yes, this is...

Management: So, be it risk ALM, be it treasury modules, be it financial accounting, HR solutions, the security things, SOC, NOC and DRN, all those things. Everything is -- IBM is the aggregator, and we have taken the best systems, which are also used by our competitors like...

Management: Bajaj.

Management: Bajaj and LIC Housing Finance. That is the...

Questioner: Okay. So to sum up, so we had around, I mean, 249, 250 branches. This year you did open 28 and next year maybe it looks like another 23?

Management: 23, 24, you can say.

Questioner: Will open. So it will be around 300 branches end of next financial year?

Management: End of next year.

Questioner: And usually it takes what, 1.5 years for the branch to get break even?

Management: Break even, Yes.

Questioner: Okay.

Management: That is the average on an [inaudible 0:05:49].

Questioner: Okay. And which areas we are actually opening these branches, geographically?

Management: So, this year, actually, if you see, we have opened the branches spinally across the zones. We operate in six zones. West zone is one. East zone is one. Then we have Telangana, Karnataka and Tamil Nadu. Tamil Nadu consists of Tamil Nadu as well as Kerala. So, in Tamil Nadu also, this year also we have opened four, five branches.

Karnataka, two branches or three branches we have opened. Eastern area, we are opening maximum 10 branches. That includes your Chhattisgarh, your Bihar, West Bengal, Odisha and Andhra Pradesh. Similarly, Telangana also we have opened quite a few branches. Western area also we have opened some branches, four, five branches we have opened there. And northern area consists of your UP, Delhi, Haryana, Punjab and the entire northern part. Of course, we don't have any branch as of in Kashmir.

Questioner: West, East, Tamil Nadu is one zone. What are the other three zones? Sorry, I missed one.

Management: Yes, North is one. North is one, which consists of UP, Delhi NCR and Haryana, Punjab, Himachal. Of course, this Uttarakhand also will come in that. Then we have West zone. West zone consists of your Rajasthan, Gujarat, Mumbai, sorry, Maharashtra and then MP.

Then comes Karnataka zone. Karnataka zone consists of only of Karnataka state. Then we have Telangana zone, which consists only of Telangana state, where we are having 25 branches. Today we have touched the 25 branches in Telangana zone. So, then again, we have East zone, we call it, which is headquartered in Vijayawada, which consists of the Andhra Pradesh, as you know, Andhra Pradesh and Telangana have been bifurcated now. So, Andhra Pradesh, Odisha, Chhattisgarh, Bihar, West Bengal and only this much.

Questioner: Okay.

Management: And then we have another zone, sixth zone. That is Tamil Nadu. Tamil Nadu consists of the entire Tamil Nadu and Pondicherry, of course, and then it covers Kerala.

Questioner: Okay. And if you look at it, the growth is -- in general, new branch opening, new branches, right, how much it actually contributed to last year growth?

Management: Last year, it was around 800...

Questioner: For this year, price is like, what, INR40,000 crores, right?

Management: Last year, we ended at a INR42,209 crores, actually, AUM.

Management: Which is 31st March 2026 number.

Management: Yes.

Questioner: Yes, INR42,000, let's take.

Management: 42,000, you take.

Questioner: In that, how much would be the ones which added...

Management: From the new branches.

Questioner: From the new branches, how much?

Management: I'll just give to you. It's around INR36 crores from...

Questioner: New branches.

Management: I'm just showing you the relevant page here. 836 from -- see, there are two main components to that.

Questioner: Last year was how much? Let's say, I don't have the numbers.

Management: So basically, there are two components that look [inaudible 0:08:45]. Two components, one is the new sourcing.

Questioner: So this is sourcing channel, means, the new branch is INR826 crores of disbursements?

Management: Correct.

Questioner: Okay.

Management: So we have introduced two things. Opening of new branches with expanding into various region, reducing the geographical concentration. And also we have developed in-house sales team. So these two have been the principal drivers of our disbursement growth. This year also, we are planning to, rather we are on close to that, of achieving INR1,500 crores of disbursement, incremental disbursement from this two drivers.

Questioner: I think the last three quarters your disbursements have been very, very strong, right? Last three quarters, like more than 30% disbursement?

Management: More than around 20%-29% disbursement growth we have.

Questioner: What led to that sudden spurt in growth?

Management: So these two components, two drivers.

Questioner: New branches?

Management: New branches and new sales team. So...

Questioner: How many sales teams were there earlier and now?

Management: We created...

Questioner: When Mr. Iyer joined, how many sales teams were there?

Management: That time it was not there only, I think, it started from 2024.

Management: 2025, we started. Earlier we were around 36, 37 you can say was the sales team. Last year, up to now we are at around 82, 83 people are there in the sales team. So earlier first year the growth was around INR275 odd crores. That is 2025. Then last year we closed at around INR876 odd crores. And I think that figure will be there, right?

Questioner: So the sales team, Yes.

Management: Last year figure will be 876.

Questioner: Yes, it's spread around that.

Management: Yes.

Questioner: And then...

Management: INR83 crores, sorry. It was 130, so 130 we added.

Questioner: So now how many people are there?

Management: 83 are there.

Questioner: Okay.

Management: And then...

Management: And by the end of the year we are planning to put 150 number, 150 people.

Questioner: And these people, what will be their mandate? Like what will they do? Do they just do farming? They just -- are they try to deepen relationship with the DSAs? Like what do they do?

Management: No, they will not work with the...

Questioner: No, no. But what I'm saying is that they have to work along with -- see, somebody has to push and...

Management: Like they will be going to meet different type of builders also. Like for example, last year we were having around 271 ASF. That is a builder approval that we were having. So this year we have had around 331 now. So from 271, we have already at 331, 32. So that they are -- this our sales team, they are adding that. Apart from it...

Questioner: What is it? ACP builder?

Management: APF, approved, pre-approved

Management: Approval of builder project.

Questioner: Okay. So, when the builder is doing presales itself, he can actually sales side...

Management: Yes. We can tie ourselves with them. So, we conduct a preliminary LSR and all those things. So when any purchaser comes, there's always a supplementary, so we can sanction the loan at a very requisite speed. In the approved list, our name also will be there amongst other financial institutions.

Questioner: And just -- okay, now see this is the -- so the construction still remains around what? 2%, sorry, the...

Management: Construction loans.

Questioner: Construction loan would be very less, right?

Management: No, LAP will be very less. Construction loan will be -- no, we don't give for builder construction. Builder loans we don't give.

Management: That's not there only. Its builder tie-ups, for example...

Questioner: That I understand. But builder loan was very miniscule. Now it's zero.

Management: It's not there now. Builder loan, we are not giving.

Management: Right now we are not giving.

Management: Development loans, developer and builders we are not giving.

Management: We are not giving that.

Questioner: So this is a construction, flat?

Management: This is a self-construction, Yes.

Questioner: Renovation 2%, mortgage -- others is essentially, what are the others?

Management: Others are top -- other small loans.

Questioner: Land purchase, where it comes?

Management: Site loans.

Questioner: Where is that? That is part of...

Management: This others.

Management: Others only, yes. Site loan, rent receivables.

Management: That is basically with a composite type of loan for site as well as for construction.

Management: This others include site loan, loan against receivables, loans for commercial property, some children education, personal loans and commercial housing loans.

Questioner: So how many customer accounts we have broadly?

Management: 2 to 3 lakhs.

Questioner: Okay. And usually this -- I always think that, I mean, at that time, at around 18 months or so you will get to know whether this account will continue to be good or not, right? Is that trend remain the same?

Management: Still it is there now, rather if you see our SMA in both the three categories like, say, 0, 1 and 2, it has been actually coming down only, even though our AUM has been growing. Even from compared to March to June, if you see, our figure has been more or less flat only. So, that has not increased the way it should have been. So, the quality of the asset in that sense, or delinquency in that sense, you can say, it is well controlled.

Questioner: And one other thing which was mentioned in that call was that, earlier this, there are two things, right? Wherever the BT out is taking place, that is happening for, I think Bajaj and I think PNB Housing is quite aggressive?

Management: LIC.

Questioner: LIC?

Management: Correct.

Questioner: And what I'm told or understand is that the spread between us and the next person was around like 50 bps or so. Now it has become like 100 bps.

Management: Yes, yes.

Questioner: So does it continue to remain that? Like how do you manage to do that?

Management: Yes, actually see, even though our cost of fund is less, but if you see, earlier when the repo rate was a little bit high, then our banking sort of -- banks were offering that housing loan in the range of, say, 785, 795. Now they have come down to around 750. That time we were offering something like 840, 845, so the gap was only INR0.50.

Questioner: Correct.

Management: Now since they have come down to a 7.15, 7.20 sort of thing, so basically that gap has increased only.

Management: Well, it depends more on that interest rate trajectory. Like in a reducing interest rate trend, banks will have to pass on the full 1% repo rate cut advantage. But in our case, we can pass on only up to the extent of 50%, because only to that extent our loans are...

Questioner: So, in that particular thing, when the interest rate is now possibly it will go up, right?

Management: Then the gap will reduce.

Questioner: That's why I think the gap will actually put...

Management: That the gap will come down to around 40 bps point only.

Questioner: So that is what normally you expect to?

Management: That's right.

Questioner: Okay.

Management: So, as and when this interest rates will climb, we are expecting that we will have lesser BT outs at least because of rates.

Questioner: And see, there is one is DSA channel, right? And we're always being beneficiary of DSA channel. And there's nothing, I mean, it doesn't continue to...

Questioner: Yes, okay. Fine. And I have a long history with Can Fin Homes that I actually tried with the team. So I don't want to repeat it again in the interest of time, right? So, we were just discussing two or three things. One is that, there has been -- the pace of growth of branches had come off in the last 3-4 years, especially after COVID.

And then now again, it is picking up. And my understanding is that, new branches usually contributes meaningfully to the growth. And it also helps the internal talent to also get better responsibilities, right? So people are in general more excited?

Management: They are excited about growth opportunities.

Questioner: Growth opportunities. And I think that's what I was told that you're opening 28 branches...

Management: This year also. Yes, correct.

Questioner: And what is the plan, I mean, he mentioned that over the next year also you will do around 25, 26, right?

Management: That is correct.

Questioner: Is it possible to even better this or is it like is there a limiting factor that 28 or 20, 30 is what you should do? How to think about that?

Management: See, basically, there are two. One is when we sat down to draw up the strategy, we had said, we'll do 300 branches by FY28. So that was the initial thing. So we started with 15, 15, 15 branches, and now this year we have done 28. So we will already be at 277. That's how the 25 number is there.

But Yes, there is no -- now we have already done 28 this year, so it should not be a problem. So we'll keep that track. After 28 also, maybe we will continue the trend and see how we want to open, because we'll be at 300 branches by the end of '28.

Questioner: See, accompanying that, like when I meet some of the other firms, so for example, I met this gentleman who heads an unlisted Housing Finance Company. He was saying that the biggest problem he faces is actually attrition at the branch level. And he's telling that people just negotiate, and then I give an offer, and then they say that there is another -- I'm getting another 20%, 30% more, because there's too much of demand for good talent.

So, I remember Can Fin had a plan of actually recruiting people who are like local for local, right? So, let's say, in Mandya, they will actually recruit somebody who is actually from Mandya. So there is -- he or she may not move away. And it worked. I think its long back it worked. Now things have changed in the last several years, right? So, do you see that is a challenge and how are you addressing if that is the case?

Management: See, we try to keep as much as possible to keep local talent in that place only, but otherwise also we've not -- like today also if I look at it, it is slightly elevated from what it was 2 years back, but still it is at 14.5% is our attrition rate.

Questioner: Okay. So attrition is not a major issue.

Management: It's not a major. What we have also done is, you know, last FY, from April '25 onwards, we actually got a compensation benchmarking exercise done through outside agency. And based on that, we have at least to the level of Chief Manager, in fact, we have completely increased and reviewed the salaries and everything to make it very competitive.

So we had to take a slight impact last year. That is FY26. We had a sizable impact coming because of our increase in the wages. But we took that, and now if you look at it, our entry level, which is the officer grade, our starting salary is around INR36,000 to INR38,000.

Second thing what we did was, you know, attrition Many people are facing attrition mainly in the sales team. Now, in our case, what we did was, instead of going for the DST model, where people generally take DSTs and give INR15,000 or INR18,000 fixed salary, and then rest everything is based on incentive, we said that even for sales, we will take people on the roll just like an officer.

So even if a salesperson comes in the grade of an officer, they are getting INR36,000, INR38,000 as a salary. Therefore, that comfort of being able to sustain -- otherwise just imagine if, say, for example, a DST joins, for whatever reason, something happens for a month. They are unwell, or they meet with an accident, or something happens and they are or they do less business, at INR15,000, it is not sustainable.

Questioner: Correct, correct, correct.

- Management:** So when we say 36, 38,000, you know, the people are at least that it's very comfortable to run the family, and they are able to therefore sustain. So that that pressure is a little off. That gives them a little more comfort, and is much better.
- Questioner:** Okay. And another thing I remember of Can Fin was that there was for good for -- it's a good thing that we didn't have a lot of variability in the pay structure, so that people don't run for their risk first and then assets later. Because the incentive model was I'm talking about 10 years back. How right now the branch manager's incentives are aligned to growth?
- Management:** So in -- right now also the same model works, where across the salary component is grade-wise very similar. It is not that you have -- so, we do have an incentive basis. And incentive as a percentage of the package today would be I mean, like for example, a chief manager would be able eligible for a INR1 lakh incentive at the end of the year, year-end incentive. But the CTC of this of that say of that chief manager, or say senior manager we take, versus chief manager and above we don't have incentive. We have ESOPs. We introduced ESOPs in '20.
- Management:** So now we have we have started from 24th November was the first tranche. So chief manager and above, they're all eligible for ESOPs. So say a chief manager, a chief manager would be having about CTC of anywhere between INR18 lakh to INR22 lakh. And his incentive is only INR1 lakh. So if you look at it that way, it is not a very large component whereby they will want to do it.
- Questioner:** Got it, got it. And in terms of loan origination, and loan recovery, credit check, etcetera, earlier it was actually done at a branch, then I think there was centralization. Now, can you just elaborate how things have changed and have you -- after you when you came in, you there was a further refining of this? How are you structured?
- Management:** No, so now also the sanctioning is at the branch level. Almost 75% of our loan sanctioning happens by the at the branch level only, because they have empowered up to 35 lakhs depending on their seniority and tenure with the company and all.
- Questioner:** No, that is a USP because I always found that your turnaround is faster.
- Management:** Okay, so that was that is the thing. 75% is still there. Earlier, we used to have the branches and the head office. Correct. So now what has happened, there is one in between layer of zonal office also, so almost 20% plus sanctions are happening at the zonal office. So very little still comes to the head office.
- Just about 2%, 3% which comes to the head office, the rest is also done at the zonal office. So we have -- so that is still the thing. Only disbursement what we have done is the disbursement is prepared and all the documents are uploaded by the branch only. They recommend and to it, approve it.
- There is a second layer of verification and approval at the head office, we call it a Centralized Disbursement Department, CDD. The CDD also verifies, because for example they verify whether the additional disbursement is in line with the actual stage of construction, for which the branch has to upload the geo-tagged photograph.

Then they will check with the previous disbursement to see, okay, if the previous disbursement was done at X, then and the previous photograph, whether there is a progress of work has happened, is visible. Then they see whether the beneficiary is correct. Like if it is a LAP case, you can say the check will go to the customer, but if it is a purchase case, then check has to be in favor of the vendor or in favor of the builder.

If it is an under-construction case, you can say the you know, land purchase document will be in the name of the vendor, but the construction will go in the name of the customer. So all those verifications of the end beneficiary, the account of the beneficiary, all those are verified additionally at the head office before the [GV 0:25:19] is generally prepared. So -- but if you technically look at it, the sanctioning and everything is still done at the branches only.

Questioner: Got it. And have you implemented any early warning signals, because see, even before the traditional practice in home loan is that, okay, as long as the money keeps coming in, there is no -- nothing to worry, so things go on. But, I have seen that people have started doing the credit score check or something else, right? Is that something which you are also doing or you plan to do?

Management: So, customer CIBIL check or whatever is already there. We have a soft pull also, and we are doing a regular...

Questioner: You regularly you do that?

Management: So, so that is at the time of onboarding. Subsequently, we have an annual customer monitoring, or rather we have a customer scoring, S1, S1+, S2, S2+, and S3. So, every -- and that that exercise is done once a year. So, if suppose a customer has done in the month of June disbursement, then and June will happen.

Next year, again in June, customer will be reassessed in terms of the future repayment. So, whether there has been any cheque bounce, whether the repayment is coming correctly, whether the documentation has been completed, all those things, and again the customer. So, that could be a possibility, the customers are downgraded, or if the customer has performed well, they may also get an upgrade.

So, that exercise is done. So, that gives us a good idea about which are the early things. Other than that, we have a OTMS. Okay? OTMS has about 32, 33 parameters which are being checked on every month basis by the risk department.

Questioner: What do you call that?

Management: This is actually Online Transaction Monitoring System, where parameters like whether the scheme selection was correct, whether the cash collection is higher, whether any QMA accounts have come, whether any disbursement which has not been -- which has which was disbursed and it is under partly disbursed cases for more than three months, because which means that it could be that the customer has stopped the construction.

So, those kind of things, there are about 32 or 33 parameters are there which are verified every month. Over and above that, we also have 30 parameters we have identified for our EWS, because this is our regulated, mandated requirement from RBI and this thing that we need to have our EWS module.

So, in that, the 24 parameters are what, sorry, 22 parameters are what has been suggested parameters or indicative parameters were given by NHB and RBI. Out of that, 22 or something we have taken. Additional also, we thought additionally, there are other areas which we must monitor. So, totally we are there are 30 parameters which are coming under the...

Questioner: So, see there have been cases sir, let's say, a person goes out of job, but still the payment it is there, right? Now the person CIBIL score gets degraded because he would have actually stacked some other loan somewhere. Do you have a mechanism to kind of check on a even a monthly basis that look, is there any stacking of?

Management: Job and all those things, we are not doing, but we are now taking from CIBIL a report like suppose our customer, who is regular, has defaulted elsewhere.

Questioner: That's what I'm asking?

Management: We are going. We are doing that.

Questioner: When did you start this?

Management: This would have been started about -- we have just recently started only, 3-4 months only back. So, that also now we are verifying k any account which is already demonstrated

Questioner: You'll be doing for overall lending?

Management: Yes. That alert There are totally six alerts which are coming. One is the alert of our customers who have inquired elsewhere. That is also an alert. Customers who have defaulted elsewhere, but are regular with us, that is an elsewhere. We It's called as On Us, Off Us. So, that is -- that one we are doing.

Then there is one on inquiries, too many inquiries which are done, that is there. Then customers who are defaulting with us, but have paid elsewhere. That also we are getting, which means there is some cash flow, or who has closed an account elsewhere or has paid elsewhere. That also we are getting an alert to see that okay, if he's not paying to us, paying somewhere else, means there is some cash flow which we are probably missing out or our effort is lacking.

Questioner: Got it.

Management: So, that is one more. So, totally there are six such alerts which are there. These are four I mentioned, there are two more actually.

Questioner: And see, I think you came from GRUH Finance, right? I remember that, after the Gujarat earthquake happened, I think, again there was a suggestion and counselling by GRUH Finance to -- people who have taken loan that, try to have a term insurance or something like that. And

this is something which Can Fin, it was actually given as an option. How is it -- right now, do you actually tell them that, okay, you should take a term insurance, it is for your benefit or you tell them and you just say, okay, it's up to you to take?

Management: No, so here, what has happened is in '21, the property insurance was made mandatory. And at least from '23 onwards, it is now 100% of the property insurance is, yes.

Questioner: It's not regulatory, it's done by us.

Management: It is done by us. It is not regulated, but we are insisting that for our...

Questioner: Property insurance, sir, or the individual's.

Management: Property insurance. That's come in. So, property insurance is mandatory. Life insurance of the customer is still not mandatory, but we do have a tie-up now with two agencies for this credit life cover, and there, in fact, slowly...

Questioner: Bajaj and Can HSBC, right?

Management: We have with Can HSBC and LIC. Bajaj is for non-life, okay, property insurance. For life, we have with LIC and this. There, what we are doing is, we are at least trying to push. So, last 2-3 years, our penetration has slightly or attachment ratio has slightly been improving. So, at least, it used to be closer to 30. It went up to 37 last year, and now we are slightly looking at taking it up to 50%, 60% at least.

Questioner: Got it. So going, I think the first thing I was trying to understand is your branch opening. I think that you gave a picture on that. Second is, in terms of early warning signals and how are you thinking about it. And the third thing is which you actually mentioned in your call, that the spread between you and the BT-out cases have been, it's actually gone from X to 100 basis points. And that is actually putting pressure, right?

I think you are talking that, and then you came in. So, we were discussing that, maybe when the interest rate cycle reverses, that spread would actually would narrow. Now if that is one naturally it will narrow, but other than that is it because you see that over a period of time, banks have actually moved from corporate to retail.

Okay? And now within the retail, there is everybody's going for gold loan, that is actually is becoming so big. Now this particular spread of 100 basis points and one is naturally it is solving, but is there anything which you can actually do about it?

Management: So, we have analyzed two, three things. One is, for us, the bigger challenge is the customers are making part-prepayment. So, there are approximately around 500, sorry, 5,000 customers approximately, where consistently on a monthly basis, they're making an EMI more than their - or they're making a payment more than their EMI.

Questioner: Okay.

Management: And that is a good amount of money that is coming every month.

Questioner: You have around 3 lakh accounts, right?

Management: 3 lakh accounts.

Questioner: In that, 3 lakh accounts. but that INR5,000 will be too small, right?

Management: No, INR5,000 is small. That is a customer where they're every month making more EMI.

Questioner: Okay.

Management: Okay, that is one thing. Second thing is there are another customer, another set of customers, so totally there are on an average some 70,000 such customers who are making payment INR77,000 or something, every month, they are making a payment, but the loan is live with us.

Questioner: Okay.

Management: They are only making an excess payment.

Questioner: Okay.

Management: Out of which, INR5,000 are every month making.

Questioner: Okay.

Management: So, we did an analysis how many are making every month, how many are making once a quarter or some things like that. So, based on that, what we have done is wherever the amount was beyond a particular threshold, we have started calling those customers, see why don't you explore a deposit, because you are unnecessarily paying off your liability, which is also good, but if you are -- on a rainy day, you will not be left with anything. Instead, you can also start placing deposits. So that is...

Questioner: It is just like the overdraft thing which you are trying to do, is it?

Management: No, no. Overdraft, we are not allowed to do. That Now the RBI has come with a guideline that you cannot do that overdraft thing. So here, it was going as a prepayment. They would make more payment, so more was going towards principal, so the customer's tenure was getting reduced, crashed. So, that is one action we have taken. These 5,000-odd customers were making a higher amount. We are maybe the customers are not aware that their higher amount is going, so we are trying to educate and talk to them and say that this is your EMI.

Questioner: Deposit.

Management: Yes, so one is a deposit part. Other is, if you're paying INR17,000 here, there is an EMI, you are paying INR25,000. Now, there must be some reason. Maybe he's just used to now paying INR25,000. So, we are looking at those kinds of customers, whether they can they -- if we are informing them, okay, this is your EMI, you can talk. You can still pay INR25,000, but it's only INR17,000 which is due. Why are -- so, they may -- some of them -- that is another action we have taken.

Then, for prepayment, we have seen which is the kind of -- particularly analysis of whether there are specific DSAs who are taking their loans, because there are certain pockets where we have seen that specific DSAs are only encouraging this practice more than others, particularly in Telangana. So, we are trying to...

Questioner: Why are they -- why are they asking them to pay faster?

Management: Not pay faster, they are taking over their loans. Moving from us to somewhere else.

Questioner: Okay, that is your BT, yes.

Management: So, in BT, that analysis we have done. There, we are trying to ring-fence those customers, because we know that if this particular DSA is doing this, then he's more likely to contact other customers also. So, that we are doing it. Then, this alert, as I said, 3-4 months back we have started, that is one of this was trigger was this only, where now we are getting a trigger as soon as any of our existing customer makes an inquiry elsewhere, we get an alert. So, we are able to contact the customer, "Sir, you have gone for" and you know, what is the reason? Sometimes it is because they are wanting a top-up. We have started recently. So that's what we are expecting that at least from this...

Questioner: How's the...

Management: So, in in terms of the customers who are making alerts, there we have come across some couple of observations. One is, some customers are saying, "Oh, I never made an inquiry." So, it is -- then we come to know that okay, these are the DSAs who have done the inquiry on the behalf of the customer elsewhere.

Questioner: Okay.

Management: So, that is uh one thing we have come now. We educate the customer, "Sir, your inquiry -- it has come, so somebody is trying to do this. Are you aware of it?" Some of the customers, they are doing. Second thing that we have found in this is that, it's a very small number, but at least we are able to tell the customers. Some of them have started saying that, "Oh, yes. I am looking for a top-up. Can you offer me something?"

Questioner: Okay.

Management: So, I basically was looking for some funds, I made an inquiry. So, we are able to --we may be able to convert some of those customers. In terms of the customers who we have started calling for deposits, a couple of customers have said, "No, definitely I will next month onwards I will - this month, I have already made the payment. Next month onwards, I will come to you on this." And a couple of customers have also called to inquire about, "Send me the deposit rates, I will evaluate," and all. So, we have quite a few...

Questioner: What is the size and cost of borrowing today is...

Management: See our cost of borrowing today is 7. You can say 6.98%, this thing. Incremental bank borrowings, we are getting at 7.5%, 7.35%.

Questioner: Lower, I think?

Management: No, we have a 3-year cumulative product, which is at 7.5%. So, in fact, that is something which is...

Questioner: Because I was going through your rate, because it appeared to be, I think more or less in line with your other borrowing. It's not...

Management: Yes, so because it is actually a costly source for us, because it was at 7.5%.

Questioner: Slightly very small, right, your FD is?

Management: Very small, it's right now it is just about 1%.

Questioner: Okay.

Management: Because we've always enjoyed a better -- very good relationship with banks. So, banks have always been giving us a very attractive rate. And today it is 6.98% or 7%, it's a blended rate. But incrementally if also if I look at it, today bank borrowing is coming at 7.25% to 7.5% is the rate at which incremental bank borrowings are coming. NHB is below 7%. NCDs, we are getting at around 7.8%, approximately right now. And CPs are below 7%.

Questioner: But, NCD, you don't need to do, right?

Management: See, there is a some -- every year, we need to keep doing just for the regulatory requirement, but it's not a very large number.

Questioner: CP is a better...

Management: But CP leads to a ALM mismatch.

Questioner: Okay.

Management: Short-term uh borrowing for a long-term asset, so what we do is, we limit it to INR2,500 crores.

Questioner: Because I remember that at some point, the ALM mismatch was high in Can Fin earlier.

Management: Yes, yes.

Questioner: But now, I haven't checked. How is it now?

Management: No, now we don't have as we have reduced our uh short-term borrowing substantially.

Questioner: Okay, So, I think this is, I mean, from a time point of view, probably we are losing. It's 4:05. okay. So, the last thing is see, in general I found that see in financial institutions, the longer tenure of the senior management better it is, right?

Can Fin Homes had so many MDs, right? It had like X number of almost an MD would be not more than 1 year or 1.5 years. For the first time, they gave a tenure to Mr. Ilango, and then that

helped a lot of confidence to rating agencies and all the stakeholders. Now, I think you came in '23, and you're with us 3-year plus 2-year, right? Now, is it -- so, I think '20 '27 or '28 till you have been...

Management: March '28.

Questioner: March '28, right. So, what is the thought process of Canara Bank in general from -- because I still think that the memorandum of sorry, what the MOA or MON? Sorry MOA, right? It says that Canara Bank has to appoint the...

Management: No, that was till 2019, '18.

Questioner: They changed something?

Management: They changed.

Management: So, that will be there. So, as of now, I do not think Canara Bank now is very-- I think is -- they would be okay to extend if obviously '28, the performance and all, whatever is the board's said I think we have to be met, and we have to be performance has to be, but otherwise no problem, because this time also when the renewal came, there was no issue. There was a full support from Canara Bank to extend.

Questioner: And there is still there no shareholder representing in the board, right?

Management: No, now we only have independent directors. We do not have shareholder director on the board.

Questioner: That was something which they wanted to do, some plan was there, now still it is still?

Management: So, we are not required to do have because we do not have that many number of shareholders and all those kind of things but bank is having a shareholder director.

Questioner: Got it. Okay, okay. And how many are independent directors now?

Management: Today, we have four, because we just had one resignation. One gentleman was there, Mr. Malik. He resigned, because he got a job with a bank. And he still had age on his side, so he chose to go back to working, because he had quit earlier, and had taken up only board position, but now he has got a good opportunity, so he is gone back. But, otherwise, it is four right now, and other than that, there are one ED from Canara Bank is on our board, Mr. Ahluwalia, then....

Questioner: Yes.

Management: Sailaja is from on deputation from Canara Bank and I am there. So, three are either promoter or executive directors and four are independent.

Questioner: Got it. And, now Canara Bank owns how much, is it?

Management: It's 30%, 29.99%.

Questioner: Okay. So, there is that particular thing of either they have to go to 51% or come below 26%, that is all?

Management: No, that's all resolved. Earlier there was that overlap of business criteria that was clarified by RBI.

Questioner: Right. So, now it's the that Canara Bank is just a large minority shareholder?

Management: No. They are the promoter as well as they are the...

Questioner: Yes, they are promoter. Now, there is no compulsion for them to either increase the stake or decrease the stake. They can choose. Okay.

Management: So, if they go below 26%, then it will become strategic investment for them. Right now -- Yes, it will become an investment for them. Now, it is a strategic investment, so they get a board

Questioner: So, what if they go below?

Management: So this is management control is defined by the shareholding above 25%.

Questioner: Above 25%?

Management: Right now, they have 30%, so they have management control. So, they are being the largest shareholder as well as the above 25% they have management control.

Questioner: And the last time you did was rights issue in 2015, or so, right?

Management: Correct.

Questioner: After that, you didn't take raise any equity. Now, this particular growth how long it can actually drive you?

Management: See, right now we have on the capital adequacy front, we are absolutely comfortable. It's around 23.15% in March, which is way above the 15% required. The second thing is in terms of our borrowing and everything, there also we are very well within times borrowing. We are allowed up to eight times borrowing.

Today, we are at our book is around INR6,000 crores. So, we can borrow up to eight times of INR6,000, which is around INR48,000 crores. Our current borrowing is only about INR38,000 crore, so both sides we are absolutely comfortable.

The third thing is in terms of our growth, we are growing at around this year, we are projecting around 14% AUM growth, whereas our ROE is around 18.5%. So net of dividend also, we are almost 14.5% is what is getting accrued to the book. So, up to 14.5% and 15%, I think we are very much within that. It is a self-sustaining kind of business, but if we continue to keep growing at above 15%, because next year onwards we should be achieving more than 15% AUM growth, in which case slightly it will be more than the ROE, net of dividend.

But today, our gearing is around 6.2 times. And I think the rating agencies I mean, we can take a higher gearing also, but for a AAA rating, I think they will be comfortable at least below eight times. So, from there also, gearing we can take it up to 7.25%, 7.5% before we even need to worry about equity. So, we have I think at the rate at which we are going, I think we can safely say that another about 3 to 4 years of runway is there before we have to worry.

Questioner: Correct, okay. And in terms of, I think, always been low on the fee income, right, because we have been...

Management: Yes.

Questioner: That continues to be there or do you think some insurance product, I think you have done that, but other than that there is?

Management: No, we have as I said, Canara HSBC also, we are having promote, and LIC for life insurance. So, we have some fee income, but by and large, yes, our focus on fee will be a little less, volume but...

Questioner: From the incentive point of view, the branch manager, does he have any fee income attached to it?

Management: No. They do not have it linked to the business.

Questioner: So are you, see, with the new systems coming in there, are you able to look through the branch-wise profitability now?

Management: Yes, we have been doing it even otherwise. Even in the old system, we were doing a branch profitability. So, FY24 when we presented this branch profitability, there were some 13, 14 branches which were already there, which were in loss making, because the volume growth and all was less, or the various reasons there maybe, some cases, opex was high. In some cases, it was rent was very high, and things like that.

So, we did an analysis. We actually merged five branches. We closed five branches. So, we did that exercise in '24, that is in '24-'25, because March '24, we analyzed it, and then in '24-'25, we even closed some branches. Then wherever we had these kind of branches where that was a loss because of a higher rent or something like that, we did some churning.

We moved out of those premises, went to alternate premises. All those kind of things we did. And FY25, we at least ensured that none of the old branches were a loss-making branch. We [Inaudible 00:47:40].

Questioner: So there is a one is your normal I think five-member branch or four-member branch you open. There is also a plan of actually having a very lean branch where you can actually roll out fast, and it will be more like a sourcing and being present, and then if things work, you can actually scale up. So, is that a strategy you want to also pursue or you have actually put that on hold, and you want to just look at every branch should have like four people, and then you open?

Management: No. So, when we start a branch, we start with two people only.

- Questioner:** Okay.
- Management:** So, the first year of the branch, they operate with two people. Then we scale it up to three. And there also, what we do is, we have a sizing of the branch. We have got a template for it. So, if it's a small branch, then the AUM is less than INR100 crores, we term it as a small branch. Those branches will be having three people only. Once they cross INR100 crores, then we will add fourth staff.
- Questioner:** Okay.
- Management:** Then same way we have a that will be called as a medium branch. Then we have a large branch, very large branch, and extra large branch. So, depending on that, we have worked on the number of staff. And that is done in a very scientific method, keeping in mind, okay, if a branch of say INR300 crores would be having at least 4,500 customers,
- Questioner:** [Inaudible 00:48:55] will be more than INR100 crores for you?
- Management:** Today more than INR100 crores, I think, out of 250 branches, I would say, about 150 would be more than INR100 crores.
- Questioner:** And from a city point of view, right? So, let's say in Chennai you had a branch and like I do not remember exactly, I think Tambaram and then and the city itself grew. And therefore, how is your presence now in a metro, and the fringes? What is the mix of branches in general for us?
- Management:** We have -- you have that statement how many are in which [Inaudible 00:49:42] statement that we were working. So see, we have a large presence in metros. Like today in Bangalore, if I look at extended Bangalore, including like Hoskote, Devanahalli, and then this Doddaballapura, then...
- Questioner:** Yelahanka.
- Management:** Yelahanka, then Sahakar Nagar, then HRBR, then Nelamangala, then this side, if you go up to Ramanagara, Bidadi, or this side if you go to Electronic City, Attibele, this side Sompura. So across the city, when you look at the entire mix, then I think Bangalore alone would be having almost 30 branches today. Same way Hyderabad, if you look at it, we have now 15 branches in Hyderabad city, including the extended city.
- Chennai, if you look at it, again we have some 7, 8 branches. We have Porur, Perungudi, we have Chengalpattu, we have Tambaram, we have Red Hills. So, 5, 7, 8 branches in Chennai. In Delhi, if you look at it, then including the NCR region, we have almost 8 branches there. Jaipur, we have 4 branches. Pune, we have 4 branches. So, that way if you look at it, we have a...
- Questioner:** And that typical competition you outlined, Bajaj and I think [Inaudible 00:50:58] sir mentioned LIC?
- Management:** LIC and then Bajaj.
- Questioner:** Punjab.

Management: PNB, HFL is also there.

Questioner: So, these are the key guys who are actually directing into for is there anybody else?

Management: It's mainly these two, LIC and Bajaj.

Questioner: And there the differential is almost 100 basis points is for you?

Management: LIC, yes. LIC has been offering loans at 7.25%, 7.5%, so that is definitely 100 basis points. Bajaj also offers that rate, but then they also have a I think some benchmark on what is the blended rate that the branch managers can offer. So, it's usually a takeover plus top-up. So, the top-up is at a higher rate. This is where they reduce the rate, but then they give a top-up at a higher rate. So, blended rate would be still be around 8.5% or whatever. But Yes. PNB has higher rate than us.

Questioner: If you come by a DSA, this is -- is that distortion still?

Management: No, we do not have that differentiation now right now. Whether it is through a DSA or it is through this, it is the same.

Questioner: Okay. It's the same.

Management: It is the same -- it is regulation-wise, we cannot differentiate for the end customer, depending on all those things. But we do have a differentiation as regards product, as regards segment, as regards this one approval, whether it is a gram panchayat, or it is a this? Or so those kind of things we are having.

Questioner: Got it. I think I do not want to take most more of your time, because time is 4:05. 4:05, So, I think just I think wanted to understand because my knowledge of CanFin stopped in 2016-'17. I have been following, but off and on. So, I thought I should take a fresh look at the bank, and I had these three or four questions in terms of branch growth, continuity in management about Canara Bank's stake, and then also the early warning signals.

I think we covered almost all of it, just wanted to understand that. And one last thing, see, you talked about disbursement growth and there is an AUM growth, right? So, as an organization, what is that is more prevalent language spoken within the firm, is it AUM or disbursement?

Management: See, disbursement growth obviously we speak about it, because, in terms of the AUM growth, like for example, we do not have restrictive clauses for loan takeovers or prepayments. We give the full flexibility to the customer, that's why so many customers, 77,000 customers on an average every month are paying more than their EMI.

Questioner: Correct.

Management: Okay. So, that is the flexibility we give. We do not say even on the 28th or 29th if a customer comes and says, "I want to make a prepayment," we do not say no. We cannot say no. Then I mean, the branch will try to request the customer and all those things, but I mean, if the customer says, "No, I want to pay," we have no option, we do take it. So, we do not have those restrictive

clauses like "You cannot pay after the 25th," or "We will not accept prepayment after the 15th," or "You can make only one prepayment in a quarter." So, we do not have any of such things.

Questioner: Even if the person pays the loan that is, you can the interest rate the principal gets reduced from that day, right?

Management: Yes, from that day.

Questioner: Not date wise thing?

Management: No. So we have a date on which the...

Questioner: When we...

Management: Pays earlier, he will get the benefit of that. Yes. Yes, they get the benefit. So, that's why So, all those things plus will be there. So, indirectly we do not say you have to have AUM growth, but Yes, we do have some targets for them. We do tell them AUM growth.

Questioner: Disbursement growth has been stupendous in the last three quarters. I was trying to understand what led to that growth, and he actually explained what's...?

Management: AUM will come with a lag. It will always it will come with a lag. Even when the disbursements were going down, the AUM was not coming down at the same rate. It always comes with a lag. So now, in fact, if we continuously do our disbursement growth at 20% plus over the previous year, and you will see that this year it is 14%, next year our AUM growth will cross 15%, and then it will slowly 16% and 18% and so on. So it will move up. If we keep the disbursement it will come with a lag.

Questioner: Got it. So to summarize, the last 2, 3 years have been stabilization phase, because we have been implementing IT and all. Now everything is now any other work in progress, large items are there?

Management: No, I think large item, by and large, we have done most. The only large item which I would still say where work in progress is going on is our DSA percentage reduction. I think that is one area we are I think we can still do better. We have targeted for bringing down our DSA contribution to 60%. And right now it is still around 78%, 79%, so there is still a quite a bit of journey.

Questioner: Is there a problem in having a higher DSA, you think? Because you are saying that you do not own the customer, is that what you are thinking?

Management: No, no. It's not that we do not want the DSA channel. I think the DSA channel has served us well. I know there is a little bit of prepayment, but that is very, very limited. I mean, if you look at the larger picture, I do not think, many DSAs are doing that. It is restricted to maybe some pockets or few DSAs and all.

Our DSA prepayment ratio is lower than our overall prepayment ratio, because as I said, overall it is the customers who are making. So, even the people who are making more payment than the

EMI, those are also spread. They are equal amount of DSA-driven customers, equal amount of non-DSA customers who are making such excess payments.

So, DSA has not been, but however, as a strategy, only depending on the DSA for the growth, I think, was not right. We needed to have multiple channels for the customer also. Like digital is a channel which will now start. Even sales team, because we need to also be present. DSAs also will only be present where they are there. So here, we can select the customer, the product, the segment that we want to cater to if we have our own channel.

So those were the reasons why we wanted to start our own sales team. Plus, digital is something which once we are our IT goes live, we will be able to offer

Questioner: Just one more question. So see, generally my observation has been that CanFin has been good in traditional loan products and fast turnaround, transparent process, transparent rules, things are good. Whereas when it comes to addressing new ways of new customer segments, right, it takes a lot of culture change, etcetera.

As a strategy, whether we will still have the same kind of a thing, or we also want to do some limited experimentation? Can we do different segment? Can we go down the curve? Maybe credit your yield can become higher, but then it brings its own risk. What is the thought process in general? Whether do you want to get into those things, or you want to this itself is a large runway, how are you thinking about it?

Management: So, when we sat down for the previous strategy in '23, I think there were enough long, low-hanging fruit like DSA, change of geographical mix, DSA mix, or the sourcing mix, the product change mix and the segment mix, okay? These were the low-hanging fruit were already available, so we went for this.

Now that we have almost achieved where we what we wanted in those aspects, I think next we will be sitting down to see and, I think, there is a thought process, and how we go about it, when we go about it, we will have to look at it. But this there is definite thought process on one, whether we can look at alternate products; two, we can look at alternate segments to increase the yield.

Because from a 2.31% spread, we have brought it down to brought it up to a 2.83% spread. So, that has come mainly because of our change in mix, product mix, and change in segment mix. Okay? And so now, if we have to further slightly work on improving our spreads, and thereby our NIMs, then, in that case, we may have to next kind of a delta can only come from a look review of the segment. As to whether we want to look at a slightly, inferior credit segment.

Questioner: Like which brand you are comfortable to operate in?

Management: We are okay with a 2.3% to 2.5%, we are already there at 2.5%.

Questioner: And credit cost?

Management: Credit cost, I think, 10 basis points, I think, we do not have a problem on credit cost. I think we will be able to sustain that.

Questioner: Is it 3.0?

Management: Approximately 2.4% you can say. 2.3% to 2.5% is the range. 2.4% you can say.

Questioner: Okay. This is helpful. Thank you so much for this. Bye.

Management: Thank you so much. Once again apologies.