



“Can Fin Homes Limited Conference Call”



SPEAKER:

**MR. SURESH IYER – MANAGING DIRECTOR, CHIEF
EXECUTIVE OFFICER & DIRECTOR, CAN FIN HOMES
LIMITED**

- Interviewer:** First things, we are now, I think technology transition.
- Suresh Iyer:** No, in fact, we have done our part of the transitioning has already happened in the terms that our infrastructure that is SD-WAN has already gone through. Our movement toward meaning solutions has already happened in September. Our movement over treasury, ALM, borrowings, all those modules that has also already happened. Our deposits and HRMS will go now. But for the housing portion, in fact, when the earnings call was there also, we said inclusive, but the team has come back saying that the customization is a little more than what they had originally anticipated. So instead of doing it in the last week of December, we will probably go into the second week of January. That is what it is. So in that sense, from what we had initially indicated that we will do over INR 2,500 crores this quarter, we will increase it to 2,800. We will release a little of our staff for regular business this quarter. So we will increase our target, we are increasing to INR 2,800 crores for the quarter.
- Interviewer:** This customization in which part of the AUM?
- Suresh Iyer:** LOS, LMS, mainly. Yes, because we have all those tie-ups with our PAN authentication, Aadhaar authentication, account aggregator. So all those kind of things they have to anyway customize. In terms of the business logic, there is not much of a difference. There are only small, I think, 9 small things where our logic is different from what the industry is doing. Other than that, it is only basically the customization because each vendor has a different partner. So the API integrations have always got to be more customized.
- Interviewer:** So next quarter, do you think we will grow?
- Suresh Iyer:** No. So INR 6,000 crore, we have already done INR 4,500 crore. Our target this year is INR 10,500 crore. So we need to do INR 6,000 crore. So what we had said was INR 2,500 in Q3 and remaining in Q4. But now that it is slightly about a month is seen. So we are seeing INR 2,800 in Q3 and INR 3,200 in Q4. So accordingly, we are just readjusting the disbursement figure. Overall, for the year, we are keeping the target as the same. And in this month also, the way disbursements have gone, our October, in spite of so many holidays, our October disbursement has been higher than our July and August numbers, marginally less than our September number, but it is more than our July and August number. So we are maintaining 800 plus any which ways. October is a little more holidays and all, so we have had slightly lower, but November, December, we should definitely. It is still above INR 800 crores. It is more than what we did in July, what we did in August.
- Interviewer:** And on this Karnataka and Telangana you have already highlighted a few things, in terms of disbursements and running, when can we see the normalization?
- Suresh Iyer:** Telangana, even this month, we have done better than last month. Karnataka, of course, more holidays. So it is slightly lower than September, but at least the positivity is there. We have a good pipeline. So in fact, in Q3, Karnataka should turn positive, vitally positive. Because last

year, in the Q3 only, we had a major dip because of our e-Khata issues which were announced in 27th, 28th of September. So Q3, we had a major dip in Karnataka. But therefore, in this year, the way the business is looking up, they are consistently doing 200 plus, 225 plus kind of things, we are consistently meeting that kind of a number. So this quarter, by the end of December, we will have YTD Karnataka positive. It will be positive.

Interviewer:

In terms of the improvement?

Suresh Iyer:

We should be doing INR 250 crore.

Interviewer:

For you it is fine INR 200 crore to INR 250 crores how quickly you can achieve that? But now this issue, I think it is now almost, when do you think?

Suresh Iyer:

See, as I said, in the various calls that I have mentioned, in case of corporation limits, it is almost, you can say, getting done. It is within 7 days also people are getting it. And obviously, if people do not have the papers, then in that case, it will take a little longer time, but then I do not think that is the kind of cases we are having. So it is not much of an issue. For panchayat areas and all, the government has issued a circular that even for panchayat areas, they will be converting from e-Khata to a-Khata and also this will start happening. So once that happens, I think our business will further improve. But as of now, we are already kind of reaching the level where our previous levels of 250, I do not know what they are about.

Interviewer:

This panchayat, when will the circular be from converting e-Khata to a-Khata?

Suresh Iyer:

I think somewhere in first week of October only, they said that this will happen. Exact date, I am not, but in the first week, immediately, somewhere around our results, before our results.

Interviewer:

They said e-Khata will be converted to a-Khata?

Suresh Iyer:

They will be.

Interviewer:

They have this road and all, 13, 14 square meters.

Suresh Iyer:

So those obviously things are there. So it is, if there was still e-Khata, so it is not that it is not recognized the documentation and everything was happening. Only thing was, it was not under the water planning and all. They will have to now get the plans; they will have to do some procedure work. It may in fact, even be some impact may be levied by the government. That is also possible because if there is some deviation, the government may increase the tax or increase something like that. So in fact result in the revenue also for the government slightly improving.

Interviewer:

Do you think it is a positive thing for us?

Suresh Iyer:

It is a positive thing for us.

Interviewer: How does that translate into faster registration?

Suresh Iyer: So once the Khata is there and they regularize that thing, then their customers will also be able to come and do the same process that is happening in this.

Interviewer: So it was a major problem for e-Khata?

Suresh Iyer: No, in Panchayat, they were anyway, that the linkage with the registration offices was not there because the Panchayat offices were giving the plan approvals, all those things were there. But once they give the e-Khata means they will first also get the documentation regularized. So that will come into the corporation or the proper governments.

Interviewer: It will come under BBMP or?

Suresh Iyer: It will not come under BBMP, but they will be able to issue that. I think the linkages on the IT side, they will be able to close and get it done. So exactly how they are going to do it, I think we will have to wait and watch. But the announcement has come. I am sure the government has some plan and they probably link just like they link the sub-registered offices with the BBMP records and everything. They will be able to probably create the records and be able to link it to the sub-registered offices for registration.

Interviewer: Now, how much of a sanctioning has impacted because of this registration issue?

Suresh Iyer: See, our 70%-80% business was basically in the Panchayat, 60%-70% you can say. So definitely there the e-Khata was becoming a problem for us. We had to shift more to the BBMP areas. We had to do more of, little more of LAP. So those things were there. So now, at least with those corrections, we have reached, we have brought the business back to that level. But with this opening, we will be able to go back to the business that we lost or the business that we were now not touching because the e-Khata was not available.

Interviewer: 70%-80% now, how much it is?

Suresh Iyer: Now also, we are doing wherever the dropouts are available. But otherwise, more of LAP, we are doing more of those things.

Interviewer: So how was the visual?

Suresh Iyer: It has come down quite a bit, yes. Substantially come down.

Interviewer: And in terms of growth from Karnataka to now, how much it has?

Suresh Iyer: In terms of business growth today, we are 10% negative YTD. So April to September, if you compare, we are 10% negative in terms of YTD business, which at the rate at which we are

going, we will be able to cover and in Q3, we might end up with about 3%-4% positive is what we are looking at. And Q4 again, we will be further improving. So what we have been saying that end of the year, we will be around 10% positive business in terms of Karnataka. That we should be able to achieve.

Interviewer: So now, assuming if this e-Khata is, hopefully, normalizes the thing. And how much incremental regressions can happen?

Suresh Iyer: So ideally speaking, if this e-Khata issue had not happened, okay, then we might probably have been touching about INR 325 crores per month to INR 350 crores, INR 325 crores per month from Karnataka. Because at the rate at which that growth was happening and even now the kind of launches, I at least feel 325 per month is the run rate we could have touched. Whereas against that, we are in the 250s to 275 between that year right now 250, we can say we are there. So definitely, there is a further INR 75 kind of crore business that we can look at.

Interviewer: And in terms of ticket size, how much it has changed both in terms of the only Karnataka?

Suresh Iyer: Ticket size, I wouldn't have, but I don't think the ticket size has because wherever we are doing the cases, if we are doing more of BBMP and more of corporation limits, slightly it could have only gone up, which is reflected in the sense that the number of, if you see our growth also is in 30-50 years actually where we have seen the growth.

Interviewer: So how did it change? Did you have branches?

Suresh Iyer: Branches are in the periphery. Like for example, our branches which we opened in the last 4, 5, 6 years prior to a little before the COVID and all, then mostly in places like Devanahalli, Kengeri, Hosur, then you say so now obviously those areas are looking rather than looking outside, they are looking more inside. So instead of going this way, they are targeting more on this side for the business. So that is where it is.

Interviewer: And in terms of spread, I think the spread has clearly gone up five-year improvement, how much we are doing spread improvement, scope was there because 17 I believe it is best--

Suresh Iyer: So today if you look at it, our Q2 spread is actually 2.9. So it says that in Q2 whatever business you have done, so there is definitely our Q2 being there, the same rates continue in Q3 which obviously they have held so far. So our 2.79 can slightly go up plus the fact that we have our NHB funding which we have got the sanction only in the last, in the first week of October rather. So there also we will be able to raise. Our blended cost should be around 6.8 or 6.83.

Interviewer: In NHB?

Suresh Iyer: NHB, the additional funding the 1,500 that we have got our blended cost, AHF plus regular refinance cost, blended cost should be around 6.83. So that also should further help us maintain

or bring down our 6.17, 7.17. So therefore, there is a little advantage that we have. We will see however we want to pass on some of it to our customer is that option is there. We had already, we are contemplating that in the month of September, but because there was a spike in the bond yields and all, we said we will hold back. So we have that option of passing on. But at least I can safely say our spread will not come below 2.75. Even if we pass on something, we will take that into our calculations and then see that at least it does not go below 2.75.

Interviewer: How big is this additional bond value?

Suresh Iyer: We have got INR 1,500 crores sanction. We will probably draw part of it in this quarter, and we will keep some for the next quarter.

Interviewer: Which is next quarter, this year?

Suresh Iyer: This year. Because Q4 generally liquidity issues are there, it becomes tight. So rates go up. So at that time, rather than go and raise NCD or something like that, I do not, we would probably use this NHB fund which is almost the rate is finalized. So I do not think that will change.

Interviewer: And the prepayment, that will also have it or?

Suresh Iyer: No, reprice like NCDs, we have some NCDs which are maturing, which we had raised at 7.8. The new NCDs we are getting, we will not probably borrow more than 7.3 or something. That is what we are looking at. Even today, the rates are 7.4, but that is a very temporary, I believe. In a day or a week's time, I think it should come down. So I believe we will not want to raise at 7.4. We will probably be at 7.3 or below only we will raise. That flexibility we have. So effectively, we will be, you can say 7.8 is getting repriced to 7.3 or 7.325. CPs, of course, whatever it is there, we are continuing to get at the same rate. There is not much of a difference. In fact, we are getting sub 6 now. We are getting sub 6 in terms of CPs. Bank borrowing, our highest cost bank borrowing is 7.1, long term. If I go for short-term bank borrowings, it is below 7. So today, among all the avenues, NCDs, whatever we do, we may have to do, it will be at 7.3. But against that, whatever we raise will be offset by our NHB, it will be at 6.8. So blended between the two also, it will come to 7.1. Bank borrowing is at 7.1. CPs are further lower. So I believe, I think our borrowing cost will not exceed 7.17.

Interviewer: So do you think we need to lock in like the?

Suresh Iyer: Precisely what we are doing, NCDs, what we are doing is we are taking 5-year money. Earlier, most of our NCDs were at 3 years. Now, we are going for 5 years because max-max 6 months, 9 months, the rates will be there. Then, the rates will start going up. At that time, fixed rate, which we raise today will help us. So that is precisely the idea. And we have also, in fact, gone for a higher amount of NCD approval from our shareholders. Normally, we used to take about INR 4,000 crores or somewhat. This year, we have taken a higher limit of INR 10,000 crores from our shareholders. So if there is an opportunity which comes by, we will probably take that

in Q1 of next year because Q4 does not make sense because the rates will be slightly elevated. So rather than do it, we will meet the regulatory requirement in Q3, which is not much.

Interviewer: But on the bank side also, do you think there is a scope to increase the tenure? Because currently, I think the bank tenure would be roughly 1 year?

Suresh Iyer: No, our long-term 7.1 rate that I am talking about is for long-term bank borrowings, which is 7 years and 10 years.

Interviewer: But banks are not evolving recently.

Suresh Iyer: That is not a quarterly receipt. It is a floating receipt. That is a link to repo rate. So when the repo rates go up, say at that time, we will also increase our, so if 25 basis points increase is there in our repo rate, we will increase by 10 basis points, the same logic we have done when the rates have come down.

Interviewer: So incrementally NCD and NHB borrowing will increase?

Suresh Iyer: This quarter, yes, we are looking at both.

Interviewer: And how about the SL side? I think in that LAP, etc., we are already increasing developer, we are contemplating in terms of getting deals and all. How would you do the proportion?

Suresh Iyer: No, we are not talking about funding directly. So LAP opportunity is there and slowly it is inching up as we have indicated in that investor presentation, the 4 pillars. One of them is that non-housing, which is today at, which has come, which is today around 86% is housing and 14% is non-housing. We can go up to 20%. So there is a scope, but that is over the next 3 years, we would like to continue. So marginally, it may go up in LAP. But otherwise, non-housing anyway, we are doing about 40% of the incremental is, sorry, self-employed, non-salaried. Salaried today is about, we are doing about 60% salaried, 40% is already coming as self-employed. So slowly that will also increase our salaried, non-salaried component, which is 70-30 on the book. So when the incremental is coming at 60-40, this will also slightly come down, and I think we are okay to go up to 65-35 on the book.

Interviewer: Currently, 60.

Suresh Iyer: 70-30.

Interviewer: Now, because I think competitive density is still quite intense and no matter with the PSU, NCD, SVA, advisory rates slightly upwards. In your view, is that something that is negative for the growth in the short term and do you think you need to change the card rates just to deliver?

- Suresh Iyer:** You are absolutely right. Actually, if you see that is reflected in our performance, which has slightly gone up. So while we did not get a sense from the ground that it is increasing, but on aggregate basis, because every branch going up by about 30 lakhs, 20 lakhs, nobody felt it was a big number. But when you rub it and look at it, yes, it has definitely, prepayments have gone up. So what we were contemplating in September, which we did not do, which was cut our card rates by 10 basis points further, we did not do it because there was a sudden spike in bond yield by about 7-8 basis points. So we said we will hold. I think it is time we may have to consider that and pass on something to our customer.
- Interviewer:** 10 bps, how big material could it be because it has shown at least 10 bps?
- Suresh Iyer:** See, 10 bps is something which this is what we can manage without hurting our spread and going below 2.75. I think 10 bps is what we will at least do, which we were anyway contemplating. Technically speaking, every 25 bps reduction in repo rate should translate into 10 bps for us, because our bank linked borrowings only come down, the rest of it does not come down as much. So bank linked borrowings is about 44%, 55% on the total liability side, but 80% of that is into repo rates. So effectively that comes to 44% of our liability side is into repo rate. So the 25 bps repo rate comes down, then 40% of that is 10 bps for us. So 10 bps is what we can pass on to our customers.
- Interviewer:** And in terms of non-Karnataka, Telangana, you said is now by other states also in the non-south you are explaining, in terms of the growth outlook as well as the ticket size, how much do you think there is a scope to increase the ticket sizes is improved plus this 15 branches that you have added, these are in non-South?
- Suresh Iyer:** No, there are I think 4 of those 14 branches are in AP, 3 of them are in AP.
- Interviewer:** The rest are in West and North?
- Suresh Iyer:** North.
- Interviewer:** Out of that 14 are open, 1 is in the open list. How we see this trajectory?
- Suresh Iyer:** See, every year we should be opening about 20-20 branches, because today we are at 248, one will be opened, so that means it is 249. By FY '28, our target is to reach 300 branches. So about another 50 branches we will need to open in the next 2 years. Some we may, in fact, we have identified some good potential locations. So while our budget was for 15 branches, we may probably look at some more this year.
- Interviewer:** How much of that will be non-South?
- Suresh Iyer:** Again, mostly will be non-South, although now we feel that we have a little bit of scope in Karnataka also and a couple of branches are there further in AP, because AP is doing quite well.

So AP and Karnataka, we still have a few more branches out of, we will probably look at those branches also.

Interviewer: So 35 will be non-South?

Suresh Iyer: Yes, more than that should be 40-10 probably, 40-10. The remaining 50 also that we are looking at, it is more likely to be 40-10.

Interviewer: Are we adding branches in Hyderabad?

Suresh Iyer: Not in Telangana. As I said, AP, which is like more in Vizag, closer to Vizag is Vijayawada. So there almost every district is doing well. And the sentiment is also very positive after change of government. And you would have seen that Google's investment in, so basically, the IT investments are also likely to come. GCCs are also likely are looking at that for a good potential location. So employment creation is also likely. In fact, recently, I don't know, I cannot recollect which this thing had carried this, but there were about the top locations where employment generation is going to happen. The top cities, these places were also there. Vijayawada was there, some of this. So that way it is positive.

Interviewer: And I think 98% of the loans are linked to our PLR?

Suresh Iyer: Yes. Linked to means basically linked to our floating rate.

Interviewer: PLR only?

Suresh Iyer: Internal benchmark, we call it card rates.

Interviewer: So, Telangana, you said hydro issue, how much growth can you see?

Suresh Iyer: See, Telangana, now we are consistently for the last, even this month we have crossed INR 100 crores. Last month also we crossed, after a long time we crossed INR 100 crores and we have sustained that in this October month also. So Telangana may not be in Q3, definitely not in Q3, but Q4, we are looking at Telangana also turning positive.

Interviewer: And HYDRA issue?

Suresh Iyer: It is still there, sentiment is still not. So technically speaking, we have at a point in time, about INR 160 crores disbursement per month in Telangana also. But we are not looking at INR 160 crores. I think even if we run it about 120-125 on a consistent basis, I think it will be satisfactory. I would be very happy with that. If not, I would not want to grow beyond that in this present situation.

Interviewer: But the issues, the demand outflow, asset quality weakness or something?

- Suresh Iyer:** No, it is more, as I said, HYDRA is a major issue. Because when you are still do not have the clarity on the government's decision on what they are going to do with it, and whether they are going to demolish it. Temporarily for the last 6-8 months, I think no demolitions have happened. That is positive. That is why at least the sentiment is slightly improved. But when this repeatedly, these kind of if the continuity in policy is not going to be there, it is better not to run fast over there.
- Interviewer:** So fair to say, how much growth can we expect in the West and North?
- Suresh Iyer:** North has consistently been doing 30% plus. I think today also we are way more than 30%. I would say 30% will continue. Also, because the branches also maximally opened in the North. Same also for West. Additional thing is in West now, growth is better. We are now almost 25% growth in the West, which I think should further improve because this year we have been struggling with a bit of continuity issues in Maharashtra, which also we seem to have kind of resolved. So now the team stability is also there in Maharashtra, which was one of the weaker states for us. Last year, we could not somehow come back in Maharashtra. This year, Maharashtra is also looking good, better for us. So in that sense, we think West also would probably end the year with about 30%. Tamil Nadu, we have not added any branches in the last, I think, 2-3 years. Therefore, there it would be around 20%-25% growth would be there, although they are doing around 27% right now. East, as I said, Andhra Pradesh is looking positive. We are doing around 30% growth there. I think this year we can sustain that kind of a growth.
- Interviewer:** So except for Telengana, Karnataka, we are doing 10% growth?
- Suresh Iyer:** 35% plus growth everywhere. Karnataka also by the end of the year should be 10% growth.
- Interviewer:** That is again, Karnataka is the major province. How much does it contribute?
- Suresh Iyer:** Karnataka today contributes about, I think, 30%, a little below 30%.
- Interviewer:** So that has come down?
- Suresh Iyer:** That has come down, yes.
- Interviewer:** Then Telangana would be?
- Suresh Iyer:** Telangana, as I said, is now doing INR 100 crores. So 1 by 8, INR 800 crore plus is what we are doing. They are doing INR 100 crores.
- Interviewer:** Telangana in terms of disbursements is 1 by 8?
- Suresh Iyer:** 1 by 8.

- Interviewer:** When this disbursements are coming from newer branches in West and North, is our yield lower there considering you want to make inroads and hence lower yield?
- Suresh Iyer:** We can't. We don't do that kind of differential pricing. We don't do that. Even as per the regulation, it is not allowed. So any two customers, any two places, irrespective of if they are having a similar credit score, internal credit score, and the same product, we offer the same rate. There is no reason.
- Interviewer:** Can you mention this team issue in Maharashtra? I have asked you in previous meetings also how you want to resolve this, given that there is a slight, other HFC like 1% etc., you don't do that?
- Suresh Iyer:** No, we did a correction. In the month of June, we did a salary correction. We had a compensation benchmarking exercise done, post which we did a good correction in salary. So today, I think we are up to the level of Chief Manager and all, we are very much comparable. In fact, we are better than the industry. So I don't think that would be much of a challenge. In fact, our only challenge today in terms of staffing is that we have a branch-led model. So basically, our team has to do everything. They have to also source business. They also have to interact with the developers for APF and all those things. They also have to do collections. They also have to do back office operations and credit appraisal and sanctions whereas, industry is following a verticalized approach. So when people join, they expect that I will only sit in the office and do operations, back office or credit or something. So that is the only area where people find it a little difficult to adjust and they leave. So our attrition also, 50% of the attrition that we see is in the first 12 months of the person joining. So that is the segment where we see the maximum attrition.
- Interviewer:** Why the DSA productivity decline? Because we added a few DSAs. If I look at the number of files sourced per DSA, etc., it used to be 6.3 at some point of time. Maybe it is closer to 6 nowadays, it is closer to 5?
- Suresh Iyer:** I do not think the number, I have analyzed the numbers. But I think in terms of the business, the DSA is not actually degrowing. It is only that my percentage of direct business is improving. That is why it is coming down. Today, almost 8%-8.5% of the incremental business is coming through our internal sales channel. That is why the percentage is looking like coming down.
- Interviewer:** The number of files sourced also has come down?
- Suresh Iyer:** But we do not have that figure. The number of DSAs. No, see, what happens is we have 11-month validity of their code. After every 11 months, we do a re-check and we again reappoint them. So there are some variations where the renewals are getting delayed. Some of them, we do not submit the papers. We have to do it ourselves. So it may be a little here and there. But roughly, if you look at it, approximately about 1400, I would say is a stable number of DSAs that we have in the system at any point in time.

Interviewer: And your marketing staff also, it is kind of, this quarter they are not increasing, even though it is 100 of them?

Suresh Iyer: Last quarter 30th June, it was only 39. That is what we did last quarter, 39 in the month of June, this 39 people brought about INR 41 crores of business. So that was a little above INR 1 crore per staff per month was the productivity. Now, we increased it. So in the month of September, if I look at it, there were 90 people and they have brought about INR 77 crores of business.

Interviewer: There is a lot of room to increase the productivity now?

Suresh Iyer: No, productivity is still, I would say, there will always be new people who will take 3 months' time to get adjusted and come back to it. But yes, about INR 80 lakhs to INR 1 crore productivity per marketing staff per month is the productivity we are aiming at. We want to at least touch INR 1 crore kind of thing.

Interviewer: INR 80 crore per?

Suresh Iyer: No, INR 80 lakhs per month per this thing, INR 80 lakhs to 1 crore.

Interviewer: INR 80 lakhs to 1 crore per month?

Suresh Iyer: Per month disbursement from each sales staff.

Interviewer: So it is only 3 basis points per month?

Suresh Iyer: More than that, our average is 3-4.

Interviewer: And how big it will be like 2-3 months?

Suresh Iyer: I am sure, see the direct correlation between the feet of street and the business sourcing is very evident. So that is what is the pitch we will try to make, obviously. And so, I am sure we would love to take this number up to 250 odd times in the next 2 years.

Interviewer: So assuming there is a 10 bps card rate, and the yields which are at 10.05, 9.98 or something, there is a loan mix change also. So steady state, how does it look like?

Suresh Iyer: Even if, right now, we are at 10.08. So I think even with this 10 bps cut, I think the rate would be around 10%. Because as you rightly said, a little bit of self-employed, a little bit of LAP also will add. And since it is going up, some of it will be offset. So around 10% will be the yield. Our cost is 7.17 today. That will still leave us a spread of about 2.8% spread. So that is why we said 2.75 is something we will maintain, that is what is the revised guidance, we gave in our earnings call also.

- Interviewer:** How much BT-out did you say is happening and whether it is higher than the historical limit? And whether it has rightly gone up?
- Suresh Iyer:** It has rightly gone up, no doubt.
- Interviewer:** Has it been increasing in the festive season?
- Suresh Iyer:** See, normally in the quarter and months, yes, there is normally a little bit of a higher number. But this has been a little more than that, what we have observed in the last 4 months actually. Till the month of May, it was not very much under control. June onwards, it has slightly lifted up. And as I said every branch, no single branch, except for a little bit in Hyderabad city, where we have seen higher. Other than that, it was not at all any major number to raise eyebrows. Every branch of 5, 10, 15 lakh, 20 lakh increase per month. So you do not normally make a big even cry about it. But overall, when we add up the whole thing, it is slightly increased. So I guess there is 10 bps that we need to do it, we have to look at that.
- Interviewer:** How are you trying to retain, reduce the spread that you charge or give the top up etc.?
- Suresh Iyer:** No, we can look at that. But see the analysis shows that while our overall prepayment has not been more than 3%-3.5% closure, I am saying, closure include takeovers and everything put together, our closures are only about 3.5% roughly. What is hurting us also is the part prepayments. In this quarter, if you see, Q1, our prepayments were 1459. This time it has become 1661. So INR 202 crores or thereabouts is an increased prepayment which has come. Out of that INR 120 crores, yes, is purely closures. But this INR 80 crores has come where customers have paid some more money, but not close the loans. So it is not a function of takeovers or a function of people moving their loans elsewhere or things like that. But it is purely people have some cash, which is coming.
- Interviewer:** People say they will do despite rate cuts as soon as?
- Suresh Iyer:** That is one more thing which I had also mentioned in the earnings call because we cut our rates from 1st July on our deposits. In spite of that, actually our deposit base has gone up in this quarter, Q2.
- Interviewer:** No, but you will be still pricing it higher than the banks?
- Suresh Iyer:** Banks, yes. But our competition and all basically, even for banks, the competition is that there is small finance banks and some NBFCs. They are offering up to 8.5%. We have cut it below 8% now. So in spite of that, we were able to get a little bit of deposits. So that probably goes to say that maybe their cash flow has slightly improved in the market.
- Interviewer:** No, but you did very small set of them?

Suresh Iyer: I know, it is a very small set.

Interviewer: So it is very difficult that cash flow would have improved especially.

Suresh Iyer: No, but this time across the board, unlike the thing, some delinquency improvement is also witnessed.

Interviewer: So any area where it has sharp improvement?

Suresh Iyer: No, across the board, we have seen improvement in SMA0 and SMA.

Interviewer: That was not the trend in historical years in Q1, Q2, Q3?

Suresh Iyer: See, earlier our delinquencies were quite, it is only the last 3 quarters, but consistently we have seen the reduction in our delinquency numbers.

Interviewer: No, because the other affordable housing finance only they have seen to be shown that trending to be that NBFC like --

Suresh Iyer: So in our case, at least across the board, we have seen that because we did have a strategy for it and that seems to have also paid off in terms of how we approached our delinquencies and how we have over the last 3 quarters consistently worked on it.

Interviewer: All the LTV has not?

Suresh Iyer: LTV has not changed.

Interviewer: And so, what will be the guidance for next FY '27?

Suresh Iyer: Our credit cost guidance will be 15 bps, but the way that this year looks like, I think it will be much lower than that because Q1 we had about INR 26 crores, our provisioning is only INR 3 crore. The whole of last year, we had about INR 75 crore of provisioning. And the way we are looking at our Q3 numbers, we expect that our delinquency might further come down by another about INR 100 odd crores is what we are working on. So right now it is INR 3,849 crores is the total delinquent pool. So which we expect to bring it down to INR 3,750. So which means that, Q3 credit cost also may not be much. It may only be for growth, whatever we have to do for increased book size.

Interviewer: But the PCR is still higher, what is the understanding when it is a mortgage book, Stage-III PCR?

Suresh Iyer: No, that is true, but we have consistently maintained that kind of a number anywhere between 45%-48%.

- Interviewer:** But the loan growth guidance next year, do you think it can cross 20%?
- Suresh Iyer:** No, we will stick to our AUM growth of 15% for next year. We are looking at a steady state kind of a growth. So this year we are, see AUM growth will anyway come with a lag. So next year also, if we are looking at 10,500 growing to around INR 12,500-INR 13,000 crores disbursement, which is about 20%, then our 12%-13% AUM growth will move to 15%.
- Interviewer:** That way we will never have to raise the capital?
- Suresh Iyer:** Not next year, of course, not next year also. But yes, once it crosses 15%-16%, then yes, there will be some getting into our, because we have a 17% ROE, 20% dividend payout ratio. So what gets added to our book is about 14%-14.5%.
- Interviewer:** I think Canara Bank is on the verge of selling stake in multiple subsidiaries?
- Suresh Iyer:** No, I don't think it is selling stake, I think it is more of as Rajiv sir mentioned in the listing speech also, and that is what the BFS also mentioned. Basically, it is bringing in a kind of a more transparency, more kind of oversight through independent boards and more regulatory compliance requirements and all once it is listed. That is what it is. I don't think now, and with that circular also, 4th October circular also getting kind of withdrawn or indication that it is not going to be there. RBI is not going to do it. So in that case, I think there is no need for Canara to right now look at divesting.
- Interviewer:** Because I think they will also not be willing to bring in some PE partner and strategy partners?
- Suresh Iyer:** I don't think there is any such idea. Because today, if you look at it, 30% is held with them. There is another large investor who has been holding about 8%-8.5% for Chhattisgarh investments. I think they have been holding 8%-8.5% for the last, I think, 15-20 years or more. So there also, they don't seem to be in movement. So you can say about 40% is kind of completely illiquid.
- Interviewer:** Can this OPEX increase largely due to the IT expenses?
- Suresh Iyer:** No, there are two reasons. One is the salary hike, as I mentioned, 1st of April. So Q1 onwards that is one major thing. And so, approximately INR 40 crore is our quarterly staff expenses. And the second thing is, we added about 15 branches in Q4 of last year and 14 branches in H1 of this year. So basically, 29 branches have added. So about INR 3-INR 4 crores increases mainly because of the rents and all those kind of things.
- Interviewer:** So this INR 760 crore run rate, how will it look like after transformation?
- Suresh Iyer:** I am sorry, this?
- Interviewer:** After full transformation, quarterly run rate of INR 76 crores, OPEX employees?

Suresh Iyer: There will be an increase of about INR 40 crores because our current project cost is INR 300 crores, total project value is about INR 300 crores, which will be about spread over 6 years, a little more than 5 years something. So effective cost of this thing will come to around INR 60 crore. Currently, we are almost spending INR 15-INR 20 crores on our current vendor. So that will obviously be sunset in March, not beyond March, definitely. So effectively from next year, the net increase will be about INR 40 crores. INR 40 crores on a total this thing would mean a cost to income ratio would go up by about 1% point in the first year. Then obviously, as the income goes, this will get getting start getting absorbed a little bit.

Interviewer: Even out of 300, 100 is?

Suresh Iyer: So there is INR 200 crores is our OPEX and INR 100 crores is our CAPEX. But everything is obviously going to get capitalized and depreciation will come. So part of it will come in the form of depreciation, part of it will come in the form of this thing. So I am saying net-net, the increase would be about INR 40 crores per year.

Interviewer: The ticket size in non-South is very similar to South?

Suresh Iyer: See, in the South is slightly elevated, particularly in Bangalore and Hyderabad, where Hyderabad we are having a ticket size upwards of 30 lakhs. And even in Bangalore, we are having an average ticket size, I think of 30 lakhs. So these two particular locations, but if I look at Andhra Pradesh, if you look at Tamil Nadu, it is less.

Interviewer: And West and North?

Suresh Iyer: West and North also it is less only, it is the average company. Only in these 2 cities, we have slightly elevated ticket sizes.

Interviewer: This marketing people actually go to other expenses?

Suresh Iyer: No, they are all staff, they are all on the rolls. So they are all under staff cost only.

Interviewer: So overall advances growth will be you said 20%?

Suresh Iyer: 15% for a year. Disbursement growth will be higher.

Interviewer: With this growth in your cost to income, but your credit cost obviously will remain subdued. The overall e-commerce will be 15? And will the margin is not changing? Next year also?

Suresh Iyer: We do not see any 2.7 year, we should be able to maintain. So we do not see any lower growth than the previous growth.

Interviewer: No. Cost to income will go up, so there will be a slide?

Suresh Iyer: There will be a slide, we will get offset a little bit for the credit cost. And of course, we have improved our spreads a little bit.

Interviewer: Nothing has been done on the other income? This year spreads will be what?

Suresh Iyer: Other income we have a scope, let us see how we do it. But we do not want to push our insurance just for the economy. We are having one of the lowest attachment rates in the industry. And I think it is fine. We do not want to unnecessarily compel our customers to go for insurance just to.

Interviewer: Who is our partner?

Suresh Iyer: We have Canara HSBC.

Interviewer: This year the spread will be how much?

Suresh Iyer: 2.75. I think Q3-Q4 we should maintain. We should, we can again, if December rates go down, we will have a little bit advantage because we will get advantage, but our pass on will be over a spread. So maybe in 2.75 spread, I think this year we should be able to maintain.

Interviewer: Even currently, it is at over 9. I think Q2 will have to do lot of us to reach out?

Suresh Iyer: No, we will have to, that is why we are factoring in that 10 bps if we have to pass on.

Interviewer: Even then it will be not 2.7, it will be closer to 2.8?

Suresh Iyer: No, I am just saying this year will remain at 2.8 and then if we see next year 2.75, then again the overall performance growth will be in the range of 12% versus the AUM growth of 15%.

Interviewer: But we will see today, if you see. I think our cost to income is increasing by 1% point?

Suresh Iyer: That is one of the things that will again over a period of the next 2-3 years that will get absorbed because that expense is on the expense side, it is fixed but the income will change.

Interviewer: Yes, denominator will increase.

Suresh Iyer: Yes.

Interviewer: The only thing we are looking is when this growth will come to, especially around Karnataka?

Suresh Iyer: And that should happen because slowly we are.

Interviewer: Next year, what do you see?

- Suresh Iyer:** Karnataka next year, I think we should be the way it is going once we touch 300 and once this stabilizes, these systems are in place on the government side for issuance of e-Khata and all, I think Karnataka can get INR 300 crores on a consistent basis per month.
- Interviewer:** But double-digit growth, actually 275. Now, it is 250, it would go to 300.
- Suresh Iyer:** Yes, 300. Then it will be 20%. Sorry, double digit is gone.
- Interviewer:** Then 10%. Yes, saying 10%. No, 250-300. Now, we are currently at below 200. We started Q1 was? You are saying exit of FY '27 this?
- Suresh Iyer:** Once the government also is losing a lot of revenue, they are also very keen to get this thing in place, e-Khata process in place because that will definitely increase their revenue. And the government is right now a little.
- Interviewer:** Then why are you trying 15% growth next year?
- Suresh Iyer:** No, see 15%, I will tell you. INR 12,500 crores if you do next year, it will be a disbursement growth of 20%. But the rate at which our pre-payments are happening, there is a rundown of about almost INR 1,600 crores in a quarter. So effectively, you can say about INR 6,500, it will be flushed out. So the net addition to the book will be around INR 5,500-INR 6,000 crore only. This year, if we end somewhere around INR 40,000-INR 43,000 crore closing book, so on that it is 15% only. So disbursement growth will be around, we can say 20%, but AUM growth will be 15% only. The rundown of this part payments which is very high. We are expecting a larger BT-out. BT-out is not much, it is the part payment which is hurting us more. And that is where I say, we will have to look at how, because we are giving the complete flexibility to our customers, they can pay any number of times, any amount that they pay will go towards principal. We are not carrying any advance EMI, we are not keeping anything as advance and then not passing on to the customers. So that way, on the compliance side, we are 100% compliant and we are giving full flexibility to the customer. So to some extent, that is hurting us.
- Interviewer:** Then this bit will not apply to you, this bit reduction for the modules?
- Suresh Iyer:** No, I do not apply to adjust. No, for us there is no change.
- Interviewer:** No regulatory observation?
- Suresh Iyer:** No, at least last year we had, for our past years, FY '24 inspection reports and all are absolutely closed, nothing open. FY '25 also they have already concluded. The preliminary reports, I do not seem to suggest any such thing, whatever we will have. Final report, of course, is awaited, but I do not expect anything adverse or any major issue from there.



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Interviewer: Thank you.