



“Can Fin Homes Limited Conference Call”



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

- Interviewer:** So, sir, I think we start from our things on ground now and of course, the slow states Karnataka, etc. you did mention on the call, latest update on that?
- Suresh Iyer:** See, in terms of the market and on the ground, the sentiment is quite positive internally across all the zones because our North, West, Tamil Nadu, Andhra all of them, so it's been good, the sentiment is positive and even in the month of October where we had so many holidays.
- Interviewer:** Collections were good?
- Suresh Iyer:** Collections are also good and disbursement also we have done more than Rs. 800 crores even in the month of October. So, that is in terms of this. As regards Karnataka and Telangana, Karnataka we are continuing to see some, Panchayat has still not been resolved in terms of E-Khata, but at least in terms of the corporation limit areas, we have been fairly doing well. Now, in fact, the process is also kind of streamlined because people are getting it within 7 days and all, they are getting the E-Khata for corporation area. So, slowly we should be able to push up and by end of this quarter, in fact, we are expecting about 754 from Karnataka in this quarter.
- Interviewer:** In this quarter?
- Suresh Iyer:** In this quarter, Q3. So, it's about Rs. 250 crores per month. So, we should be able to kind of turn back into positive in Karnataka YTD.
- Interviewer:** Sorry, just to interrupt, why has it taken so much time for the issue to get resolved? Because I think these last 4 concalls you have been pestered with this question.
- Suresh Iyer:** See, the thing is, they have not, this E-Khata issue, they have been talking about it, but they have not, frankly speaking, 2009 was the time when Karnataka actually started all the registration. That line, they started they were the first to make it mandatory to do the registration of mortgages. 2009 I am talking about. Okay. But then, since then, all the registrations are, all the mortgages are registered. All the documentation is also registered. So, why the E-Khata? That beats me. But anyway, even if, it is to do with some, they wanted to regularize this, some red stamp, they wanted to check on the actual construction, they wanted to check on the plan approvals and all those things. Then also, I mean, the process should have been first tried out in some bigger place, and I still do not understand why it has taken so long. I agree. Because, a state where all the IT brains are there, to be able to do some, find a native solution of linking the sub-registered offices and the, this should not have taken, I mean, anyway, whatever, I really do not know what is the real issue. But it is at least now being sorted for the corporation. Panchayat they have not done it, they are talking about, issuing A-Khatas and issuing E-Khatas even for B-Khata properties. So, that should actually improve if that really happens or as and when it happens. But having said that, we at least feel this 250 will definitely sustain. Going forward should again pick up, and had it not been the case, had this E-Khata issue not happened, probably we would have been doing more than Rs. 300 crores per month. So, there is still a loss to the business. But still, we are back to 250. So, this quarter will turn around, and it will become

positive, widely positive. And Q4 again will continue. So, therefore, we should end definitely more than 10% positive by end of the year in Karnataka in terms of disbursement. Our North Zone, West Zone and East Zone all are doing more than 25%, including Tamil Nadu also, doing close to 25% growth. So, other than this, everywhere it is there. Telangana will take a little longer time. We are, however, last couple of months, including in October, we have been able to do more than Rs. 100 crores. So, that way it is slightly picking up. So, that is a good thing. So, probably in Q4 end, we will be again positive in Telangana as well. So, business is not a major thing. And we still have Q3, Q4 where we can, normally there are a lot of offers, there are a lot of discounts and offers which can push business. So, that is what we are hoping. We have done Rs. 4,500 crores in the first half and so we are targeting Rs. 6,000 crores. 2,800 in this quarter and 3,200 in the next quarter, because the earnings call we said it at 2,500. But, you know, the IT transformation is slightly a couple of weeks getting going forward. So, therefore, you know, this quarter we will get almost the full quarter for business. So, we will push it for Rs. 2,800 crores. That is how the plan is.

Interviewer: Okay. And, in terms of the focus, average ticket size you mentioned on the call, you slightly focus more on 20 lakhs, how is the on-ground competition right now and the segment you are in, of course, higher ticket size. Are you also looking at affordable housing or not at all?

Suresh Iyer: Affordable housing, not as much. Because if you are talking about the smaller ticket size, it is not a major. Today, the affordable housing below Rs. 15 lakhs. Today, if you look at the industry statistics also, it is going down. And so, there is not much of a supply to them. The CLSS has yet not picked up. Anyway, the CLSS is not as lucrative as CLSS 1. So, this time, these builders are not showing that kind of interest in coming up with supply for the construction of real affordable. And today, if you look at even tier 2 towns or smaller towns like Sangli or Karad or Viman Nagar or something like that, there also, if you see the property costs are 25-30 lakhs even for a small 600 square feet land in a self-constructed property. So, it is not that, there are any kind of Rs. 8 lakhs and Rs. 10 lakhs and Rs. 12 lakhs properties which people are buying. Even the smaller properties in smaller towns is now costing Rs. 25 lakhs-Rs. 30 lakhs.

Interviewer: So, it is change in natural migration.

Suresh Iyer: Yes.

Interviewer: But what exactly would be the difference in the customer profile of what will be the AHFCs versus yours in that sense? See, is there like a clear distinction? Are you able to make or?

Suresh Iyer: Definite distinction is there in the sense that the real affordable housing finance companies would look at any of these, Aadhaar of course, and including the ones smaller than those like the Aptus or the Shubham or anybody. Definitely, they are going for the appraised income. Most of them are self-employed and all that. Appraised income, where they are going for, various projects, like average bank balance or multiplier product and stuff like that. Whereas in our case, we are purely, even in the self-employed, going by the IT returns, IT returns which have been

filed. So, our self-employed is not the undocumented income. That is the major difference which is there. And once you come to the self-employed or whatever, even in the tier-2 towns or tier-1 towns, our rate of interest definitely is an advantage where customers would prefer us over them if everything is clear. And then if, we reject, probably they would go or those we are not able to touch will go to them. Because rate of interest wise, barring the ESU banks and some of the private sector banks, in fact, we would be among the lowest in terms of the rate of interest. LIC, yes, offers lower. Bajaj offers lower, but blended cost, I think the yield shows that their blended cost actually is higher than ours.

Interviewer: Why I would specifically ask this is because of the underlying pain in that segment. I heard SBFC yesterday, two days back, after the call, I am sure you also are aware. They did mention there is an underlying pain in that segment, which overlaps least likely with the other segment. MFI segment, correct. And they are shying away from that particular ticket size. So, do we have any pain points for us as well or we are completely isolated?

Suresh Iyer: See, at least MFI piece, we are not there, we do not have much of an overlap with MFI segment or the unsecured, a small ticket LAP or things like that. But when it comes to our job of this, I think only small area where there has been a little increase is Telangana where property prices have opened up after Hydra and all. So, there are some kind of, but that also our GNPA is just 1.1% or something. It is not very different or very much higher than the overall company average.

Interviewer: Got it. And what is the LTV you are comfortable at right now?

Suresh Iyer: We do give up to 80% on paper, but otherwise we, if you look at the real LTV, it is about 60%-65%. That would be the real LTV, unobstructed over all these things.

Interviewer: Got it. And on growth, branch, I think about 270 or branches you have?

Suresh Iyer: No, 248. Including the 14 we have added this year.

Interviewer: And what is the plan there? What is the growth?

Suresh Iyer: This year, we have taken up to about 15. We have opened 14. One got slightly delayed. We will open that also. But otherwise, we plan to have about 300 branches by FY'28. So, we will still need to open the 50 odd branches in the next two years or maybe some we will plan to open this year. So, that should do a run rate of 20-25 branches. So, it should be 15 to 25 branches per year. And how long does it usually take for us to turn the branch around, make it profitable?

Interviewer: No, it is about 18 months is what we say. Some of the branches where we already have some presence, they do it earlier also. Like we have had some in the north particularly where we already had some amount of business, some presence was there. There when we opened the branch, we have seen that the monthly business of about Rs. 2 crores-Rs. 2.5 crores is coming

much faster. But roughly what we look at is if the branch is a smaller tier-2 town, if they are able to build an AUM of about Rs. 25 crores to Rs. 28 crores, I think they are kind of breaking even.

Interviewer: Got it. And also if you can talk on the margins, how much of our book is essentially fixed and how much is variable, sir?

Suresh Iyer: Our asset entirely of 99% is floating. Only 1% which will be some staff loan and stuff like that. 99% is floating, of which 58% is annual and quarterly reset is very important.

Interviewer: And this is linked to repo or MCLR?

Suresh Iyer: No, we have our own card rates because we are not bound by the EBLRs etc.

Interviewer: So, you have your own card rate. And how much of that book has already been reset and what is the impact you would see?

Suresh Iyer: See, the last time we did it was in July. So, our quarterly reset 40%-41% has entirely been reset already. In our annual reset also, if you look at it, out of the remaining 58%, I would say from May onwards, at least 50% would have already gone through one reset cycle, 50%. So, that 50% has seen one cycle. The remaining would probably be required. So, up to May, there will be some loans which will probably come for reset.

Interviewer: Got it. So, we should see bottoming out of, provided there is no further rate cut, when should we see bottoming out of our yields and yield growth?

Suresh Iyer: See, technically speaking, our actual NIMs and spreads have actually improved.

Interviewer: Correct.

Suresh Iyer: And even as we speak, we still have on the liability side also some repricing yet to happen, particularly in NHB.

Interviewer: Sorry, when is that expected to come?

Suresh Iyer: That also is annual reset, and they announced only from July. We announced in May and July, they announced only in July. So, in fact, for NHB portion, in fact, most of it is yet to be repriced. But on the liability side, about 50% of the 58%, so I would say about 25%-28% is yet to be repriced. And we have passed on 25 bps to the customer. So, that by the time it happens, I think we will also have a little benefit in terms of our incremental borrowing cost is further lower than our, for the year cost.

Interviewer: Got it. Understood. You were underway for an IT, we were implementing some changes. So, where are we likely to complete it by November?

Suresh Iyer: No, that is what I was just mentioning before again. Slightly, there is some configuration or customization effort is a little higher as vendor has said. So, instead of December, which we were planning first week of December, it moves to second or third week of January. So, that is what we will implement it. Till that time there will be, Q3 will not have an impact in terms of that, except for a little bit of training impact where we will have to, we will start the training for our staff.

Interviewer: And sir, if you can also talk about the non-housing loan, I think what 29% odd or 30% of the year right now?

Suresh Iyer: No, non-housing loan is only about 14%, 86% including CRE is housing.

Interviewer: Okay. So, where do we want that to reach 20%, 3 years is what you mentioned?

Suresh Iyer: Yes, that is correct. Not beyond that.

Interviewer: And what is the yield benefit we got to get on that issue?

Suresh Iyer: See, we have a different kind of aspects to it. Like if it is a self-employed, then compared to a salary, it is half a percent higher.

Interviewer: Correct. If it is non-housing, it is again half a percent higher. So, effectively if it is a non-housing self-employed, then it will be 1% higher than the salary of the non-housing. So, that is how it works.

Suresh Iyer: So, just one point and just into the presentation only. On the sourcing mix, you actually mentioned that in 3 years' time you want the proportion of DSAs to come down.

Interviewer: Did you actually increase your DSAs pretty significantly in this quarter? Number of DSAs?

Suresh Iyer: It has been about 1638. It is not a major this thing. If you look at the number of active DSAs who are regularly contributing, it is not a major kind of a thing. And this is also a different journey. Okay. Like there will be people who will be getting renewed. So, they will sometimes in the next quarter will see there are about 200-300 that have not renewed. Okay. That kind of a number.

Interviewer: Because Q1 it was 1250, this time it is 1638.

Suresh Iyer: The average number is about 1450.

Interviewer: So, the way we should think about it is the share of total business.

- Suresh Iyer:** Share of total business. That is it absolutely. Because if you see, the top 20 share has also come down from 11% to 8% now. So, if you look at it that way, it is a little more broad based but reliance on specific single DSAs has also come down.
- Interviewer:** Fair enough. And sir, you also mentioned there that you want to have like 10% sourcing from digital. How will that go about? Because right now I am assuming it is almost nothing.
- Suresh Iyer:** It is nothing. Because see, our IT transformation, once it is done, then we will be able to onboard the lead from feeds that we get from aggregators and put it on to our feet on street. Who can then take it forward and contact them and convert them into it or plus entire application process and everything. So, right now we only have a in-principle sanction which the customers can get from the system but there is no process of being able to upload the data and all those kind of things. So, once this IT transformation gets completed, then there will be mobile applications and everything which our staff can use for onboarding. Plus, we will be able to directly get leads and then load it and pass it on to our feet on street. So, that is when the digital will actually start happening.
- Interviewer:** Okay. And sir, is it safe to assume that while the proportion changes, this should actually help you, I mean the money that you make essentially like margin because I am assuming DSAs will take a higher chunk from you.
- M1:** See, DSAs for us, we are paying from 0.35 to 0.75. We do not have corporate DSAs like Andromeda or the Ruloans or things like that. So, for us, the average payout is about 0.45% to 0.5%. Okay? And currently, once we are taking the DSEs, that is the sales staff, they are all not like the DSTs or DFC where we pay Rs. 15,000, Rs. 17,000 fixed. We are taking them on roll. So, they are getting paid about 40,000 on average. The starting this thing also. So, therefore, we have to do at least a kind of a crore per sales staff to be able to say that they are more profitable than my DSA channel. But the other side is that our sales team will be able to get the kind of segment that we want to target, the profile that we want to target, unlike DSAs where they decide what they want to give. So, that is the advantage. The quality will slightly improve plus the stickiness will improve. So, that way we may be able to do it. But having said that today, within the short period also, we have been able to bring the productivity to about 80 lakhs per staff per month. Because if you see, we have about 87, 90 people. We are doing about 90 people did in September, about 77 Cr. So, almost like Rs. 80 lakhs per staff productivity. So, little more and then we will be, that will be a better, more profitable channel business.
- Interviewer:** Sir, also you talked on the cost to income. How much of it essentially was because of the tech upgradation essentially?
- Suresh Iyer:** Not, nothing much because of the tech. It was mainly because from April we increased our, we did a salary hike. And we had done a compensation benchmark in the second half of last year. Then we presented to the board. Then based on that, we took a call to review it. And the salary hike was also quite...

- Interviewer:** I think for 50% year-on-year, right?
- Suresh Iyer:** No, it was a 22% overall Company as well. 22% was the hike in salary that we have given. So, that was the major reason or the major part of it. So, average, in a way, it looked a little large because the first quarter itself, we had the full actuarial impact as well as the impact of the retiral benefits. But otherwise, if you look at it, it moves from somewhere around Rs. 8.5 Cr. to Rs. 9 Cr. was our monthly salary wage bill, which goes up to close to Rs. 20 crores.
- Interviewer:** Got it. And so, where do you see the cost to income ratio, say, in the next 2-3 years?
- Suresh Iyer:** See, next year should be around 19%, 18.5 or somewhere. Because, the next year almost the cost of the IT transformation will start decreasing. Today, we are around 17.5. One percentage point will go up. Because Rs. 40 crores additional cost will come into the P&L, either by depreciation or by way of AMDs and all those things. Currently, our income is around 4,000 plus per year. So, one percentage point will go up in the cost to income ratio. Over the period, that should start coming down. Plus, obviously, now that the IT transformation comes in, we may be able to bring in some more efficiencies. Some staff, we may be able to reassign jobs and stuff.
- Interviewer:** But does that also help to increase the productivity in terms of the number of files handled by the users? From where does it...?
- Suresh Iyer:** So, right now we are looking at, actually our productivity is 5 cases per staff per month, which probably is slightly stable. You can say 5 around that same number for the last 2-3 years. So, that we will try to obviously go a little further. One case more, 6 cases should be quite a bit of improvement there. But, I mean, if you look at it, whatever we get the benefit in terms of the staffing, we would rather put them under the sales. So, that the numbers are not going to come down. But we will be able to do more of sourcing and build them.
- Interviewer:** Got it. And how is the attrition, ground level attrition right now?
- Suresh Iyer:** For us, not a lot. It is about 14% annualized.
- Interviewer:** And what essentially are we doing differently versus the rest of the companies in that sense? Any flavor on that, sir? Because I read through from other HFCs, anywhere from 50% to say at least 30%, minimum.
- Suresh Iyer:** So, in our case, the only difference, as I said, we did a composition benchmarking. That is one thing. The other thing is, many of the older staff, at least we have seen, they have been so well with the Company. So, that loyalty and all is still very much there. Newer staff, maybe, some of them find it difficult to adjust to this branch led model rather than a verticalized model, which most others are following. So, that may be one difference. While some iteration is because of that. But otherwise, that is not a major.

- Interviewer:** So, in affordable, I am sure it has got discussed. But generally, what is your sense? Because we have seen cooperative intensity actually pick up even more.
- Suresh Iyer:** See, in the real 15, sub 15 lakh category, I do not think, you know, there is much of a supply coming in frankly. We've just discussed it actually that CLSS 2 is not, PMAY 2 is not a very attractive one as compared to the old one. So, there is no major supply coming into it. And if you look at actual growth in that segment, it is actually in single digits only now. It has been coming down. So, whatever is happening, I believe the affordable housing companies are still showing very healthy growth levels. That is probably because of the LAP book growing up or probably because it is just movement from one to the other. So, disbursements are happening, but book growth is not because...
- Interviewer:** So, when you say supplies, you mean supply on housing?
- Suresh Iyer:** On new housing. Correct.
- Interviewer:** But then how long can this BT out kind of growth sustain? If it is largely that and LAP?
- Suresh Iyer:** So, LAP is growing because some of the players who are there have actually really had seen quite a high component of LAP. For example, Bajaj, India Shelter. I think their LAP component has gone up quite a bit. So, how long it continues? Of course, in fact, I do hope that the government comes up with some real incentive for this, because that is some segment which will have to be catered to.
- Interviewer:** But within your segment, sir, how is the competition? Facing competition from the banks or larger MFCs?
- Suresh Iyer:** Banks, not actually that much because the places that we are operating, there the banks are very aggressive. Outskirts of cities or tier 2 towns. But LIC, Bajaj and PNB a little bit, yes. And LIC now has even become very aggressive with their pricing. It is 7.5% that they are offering for long now. Although, they have pressure on NIMs and all, but still they are, because the size they have to obviously have a growth also. So, I guess there is a challenge there also.
- Interviewer:** So, how should we think about your growth going ahead?
- Suresh Iyer:** See, this year about 10,500 disbursements should get us about close to 12%. Because slightly I was saying 12 to 13, but I guess our prepayments have also gone up a little bit in this quarter. So, I would say, but going next year again with 20% growth, we should be able to touch about 15%, because the capacity we have already built for Rs. 12,500 crores to Rs. 15,000 crore of disbursements in terms of the staffing, in terms of our...and plus the IT all coming in, I think in the same capacity also we should be able to do about Rs. 12,500 crores-Rs. 13,000 crore next year. That should bring about 15% growth. Because currently if you look at it, about Rs. 1,600

crores is our rundown per quarter. So, about you can say Rs. 6,800 crores-Rs. 7,000 crores. Next year if we do 12,500, we should be able to get 5,500 for net addition to the book.

Interviewer: And what is your view on the credit cost?

Suresh Iyer: It is not a very, we have been guiding for 15 basis points, but last couple of years we have actually had lower than that. This year also our delinquencies are coming down. So, this year also in fact our credit cost will be much lower. And in that sense, ROA 2.7 update?

Suresh Iyer: We are at 2.3-2.4.

Interviewer: I am saying two years out.

Suresh Iyer: Next year, of course, there will be, our cost will go up. So, that will also eat a little bit into it. And then, you know, going forward, how much we are able to improve our spread, that is what will determine. Because now there is not much left in the credit cost or in the cost income part of it. So, either it has to be improvement in our NIM, but if we try to push our NIMs, either it will affect the quality or the mix of our book or it will affect our growth. So, it is a kind of a, we have to balance between whether we want growth or we want the...

Interviewer: We are essentially optimized right now at least?

Suresh Iyer: I would say, I mean, 17.5%-18% ROE, 2.5-2.4 ROA.

Interviewer: Sir, any new states which are there for you?

Suresh Iyer: See, as such, all except for Karnataka and Telangana, otherwise all of them have. The last couple of years, we have actually worked on Rajasthan, Gujarat and Maharashtra, which have turned around for us, because there we were having a bit of a, kind of a little bit of a drag.

Interviewer: Okay.

Suresh Iyer: But now they have also turned around.

Interviewer: Okay. What has changed for you?

Suresh Iyer: Basically, it is stability.

Interviewer: Okay.

Suresh Iyer: That is all. I mean, there were staff issues. We didn't have the resources. So, last couple of years, in terms of the promotions, people moving up, we are getting people to shift and filling up the positions. Stability is now coming and that itself is a bit of a mess.

Interviewer: So, that should continue to grow 15%.

Suresh Iyer: Yes. In fact, as I said, Maharashtra now has turned around. So, I think the West should further do well.

Interviewer: Okay.

Suresh Iyer: And I mean, if you look at it, Maharashtra is the state where the highest amount of housing business happens, where we are not very strong.

Interviewer: Okay.

Suresh Iyer: We have very small, like today West, which is the states of Rajasthan, Gujarat, MP, Maharashtra, we just actually a powerhouse that way in terms of the business that these four states do. Our total portfolio is only about Rs. 5,500 crores out of the total 40,000 of it now.

Interviewer: Okay.

Suresh Iyer: We have a good scope to improve there.

Interviewer: Is there any target you have in mind, you want to take it to 20%?

Suresh Iyer: So, we will be adding branches, both in the North and the West. And now that we have stability in all the three states, we will be definitely adding. We started with Rajasthan. We will be looking at Maharashtra, we just looked at a couple of branches, we have added in the last two years. We will be looking at more now.

Interviewer: So, South, we have been within 20 of getting down to 60%. That kind of still holds?

Suresh Iyer: Yes.

Interviewer: So, then these regions will effectively become slightly proportional, right? Like to his question, right?

Suresh Iyer: Correct. So, that is why we have been in the last two years, whatever branches we have added about 53 branches from '23 onwards. April '23 onwards, 53 branches. Most of them have been in these two regions only. Barring a few in Andhra Pradesh and a few in Tamil Nadu, we have added most of the branches in these two only. We have not added a single branch in Telangana, a single branch in Karnataka.

Interviewer: And I am sure E-Khata has also got discussed, but are you behind it now or?

- Suresh Iyer:** Not fully. Like, I mean, if the problem was not to be there, we would be doing probably Rs. 300 crore plus in Karnataka per month. But we are just around 250 kind of. This quarter, we are looking at Rs. 750 crore from Karnataka, which means we still have a good Rs. 50 crores-Rs. 75 crore per month shortfall because of this.
- Interviewer:** And so, you said it is funding in Rajasthan, Gujarat and Maharashtra area. So, are you changing any average ticket size or some? I think in that area there is too much competition in housing and it is pretty consolidated.
- Suresh Iyer:** But we have a fairly good amount of presence. If you look at it, we have more than 8 branches in, in fact more than 10 branches in Maharashtra. We have about 14 odd branches in Rajasthan, 6 branches in Gujarat. So, we already have a good presence there. It is just adding in the nearby locations where we are already known and then working on it.
- Interviewer:** And just one more thing, sir. Can you just give an idea of how much OpEx or what are the capital expenditure you do on opening a branch, because it is like very varying for all the housing. Some are doing very minimal, some are doing very hi-fi. So, that is why.
- Suresh Iyer:** For us, an average new branch means about Rs. 7 lakhs to Rs. 10 lakhs of initial expenditure that will be there on furniture, electrification and all those kind of things. That is the only thing plus the staffing. So, there is nothing much that we spend on a new branch.
- Interviewer:** Not that much?
- Suresh Iyer:** No, not at all. So, even with this 15-14 branches that we have added, the additional cost is going to be just about Rs. 1 crore in the total. Of course, the salary cost and everything, rent and everything will be there, but not much.
- Interviewer:** In this E-Khata, how many number of houses would now be already into this system and how many will be?
- Suresh Iyer:** I do not know because last 3 months to 4 months, the state also has not published any number of how many applications are there, how many are being cleared and all. But roughly from the ground, we see that about in 7 days' time, at least corporation limit areas and some of the bills, we are able to get in 7 days' time also, E-Khata. It is not a major issue now. It is only the panchayat areas where we were quite strong, where we still do not get the E-Khatas. So, there registration is a problem.
- Interviewer:** Surprisingly, this just took us so long. Should not happen, probably, at least in a tech city state of the country.
- Suresh Iyer:** Yes, I know.



*Can Fin Home Limited
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Interviewer: That is all. Thank you.

Suresh Iyer: Thank you.