



“Can Fin Homes Limited Conference Call”



SPEAKER:

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

Interviewer: So, I think I will pass it on to, no, I just one thing will be more important, your software aspect just want to know does it work in terms of the leadership, is the leadership attracting talent, is it industry benchmarked, is there a concept of use of Google sites, I think you will be completing three years, how do we understand from a very longer term lens, because there can be periods where leadership changes can be, so how is it driven from the end and abode?

Suresh Iyer: Sure, see from the management perspective we have mostly it is a Canara promoted, Canara bank promoted entity, but most of the people, I mean except for the DMD who comes on deputation from Canara bank, the rest of the staff are all Can Fin staff, they have joined Can Fin and have worked in Can Fin, so there is no kind of deputation kind of thing. We have in fact a very good mix now of new people coming from lateral entry as well as people who have been groomed from within the system, we have a leadership which is of course quite a few of them are more than 20 years with the organization, both the presidents who are there, our CCO, our head of planning and strategy, so quite a few of them are from within the system and of course now we have the CFO who has joined four months back from the market, we have a company secretary, so some of the talent also as people are retiring now, we are getting from the market. In terms of our compensation and everything, at least up to the chief manager level it is in fact very competitive, in fact you could say that it is probably we pay better than the peers, so getting new people from the market, now it is not at all a challenge, we are able to get people, we have got the experience and everything and from chief manager level onwards, we also have a ESOP which was only started last year, so in terms of the management we have the top chief manager, AVP, VP and president level people who are also enjoying the ESOPs.

Interviewer: What is the total pool?

Suresh Iyer: The pool right now, the last year we have taken the shareholder approval for 1% of the total pool, but of course what has actually been last year grant offered is much lower than that, it is just a small percentage of that, but of course that will be utilized over a couple of years. Then we also have, so basically our compensation and everything, we have also done a compensation benchmarking last year and then we did a salary division and all, so basically up to chief manager as I mentioned, we are quite competitive, our attrition rates are quite low, it is compared to the industry where people are having a much higher attrition rates, but our attrition rate is about 14% analyzed, so that is the kind of thing. Then we have a three-tier structure basically, branches which are put into zones, we have six zones, zonal offices and then the head office as the end of the structure. So even some of the, like three of the zonal heads who are in the vice-president levels or AVP levels, they are also basically have been taken from the market only. So it is a mix of both people from within and also people who have been recruited in the last one, one and a half year from the market, so that is a, you know.

Interviewer: It is fairly competitive, that is not a big challenge.

Suresh Iyer: That is not a challenge and once people are coming in, I think the tenure of stay is also quite good because the environment and everything is quite that way, so we do not, attrition is one of the key parameters which speaks, so that is about it. I guess that is it.

Interviewer: Just a couple of things and then I will pass it on to you. One is the incidence of the fraud and all which happened about three, four, five years back, so the, any fraud, I mean technology could have in the hindsight, that it is more to do with the default fraud in borrowed level or it is more to do with the quality of book in terms of the audit coverage? Because it is surprising to have so many.

Suresh Iyer: No, I agree. No, actually, we had one small, one incident in the year 2022, wherein Canara Bank stepped in and they carried out an audit and then there was a big, this thing about some frauds in certain branches, but Canara Bank kind of put their people across all the branches and carried out an audit also. But at the end of the whole thing, which went on for almost six months or something, eventually it was only one branch, 58 accounts, customers had given false income documents to avail a higher loan at a lower rate of interest basically, basically in the sense that they had given their salaries, so that they can get a loan at a lower rate of interest. But the properties were there, customers were there, so eventually there was no credit loss also because out of 58, in fact, 57 loans have already been closed by the customers or taken over by somebody. So, there was no as such basic thing, but in fact, it was more of a negative and lot of human cry happened. But eventually, it was not a major impact at all because only one particular branch in Rajasthan, we had this Ilwada branch, we had about 58 accounts.

Suresh Iyer: That is more to do with one individual at the branch.

Suresh Iyer: Maybe some DSC would have brought up these customers wrong income documents and without proper verification or maybe it was caught clear. So, those loans are all over, there is no credit impact or anything of that sort. The second incident which happened in July'23 was particularly a result of internal control lapses where there was a control account or a sweep-in-sweep-out account fund transfer from head office to branches for disbursement because branches were issuing disbursement cheques and there the local signing powers were there to the branches. So, there somebody issued the cheque signing powers and cash cheques in a different name and then their personal name and family member names and all. So, that was what was the fraud which purely was reflected over internal controls and there again, it was not a credit quality or anything which impacted the credit quality or the assessment, but it was an internal control issue. So, there post that we went around and have completely revamped our internal controls, we centralized the disbursements, we have produced additional credit review monitoring department has been set up for all cases are being reviewed, a lot of IT changes we brought about and so basically one year entirely went into completely streamlining the systems and reviewing everything that was in July 23. So, that was what it is. Then the board has also now approved a complete IT revamp. So, that is also has been undertaken. IBM came out as the top contender for it. Then they have already started the implementation work. Some portions of the project

which was in phase one has already been implemented on 30th of September. Basically, the infrastructure part that is meeting solutions as well as the SD-WAN solutions. There is also on the application side, the treasury module, ALM module and everything has also been implemented. And thereafter, in the next quarter, January month, we are going to have the last phase of the LOS, LMS implementation. In the meantime, in November and December, the HRMS, the deposits and DMS also is going to get implemented. So, basically that is the IT, the entire LOS, LMS and entire application suite is getting revamped and getting implemented. That is what has happened in July. Once that is there, in fact, anyways in the last two years, we have upgraded and a lot of third-party vendor solutions have been integrated into our LOS, LMS solution. And so, you can practically say we are even as we speak in line with the market in terms of the IT preparedness of these things, except for digital lending, which is yet to come because that will be only when we implement the new software. So, once this is implemented in January, it will be a complete revamp with all integrated applications.

Interviewer: And the basic product will compete with Canara Bank also. Let us say, I mean, it is same cohort, all else being same, same type of customers, similar locations, which will not be the case in most of the cases. And there is a disadvantage to the borrower, right? How much will be the cost?

Suresh Iyer: So, actually, there are quite a few basic differences between Canara's sourcing or lending and our lending. One is, they are in a slightly higher end of the segment. The average ticket size for Canara Bank is about Rs. 35 lakhs, whereas our average ticket size is Rs. 25 lakhs incremental. On the book, it is even lower. That is one thing. Second thing is, Canara Bank broadly is sourcing from whether they are all their Canara Bank customers who are mainly their source of, you know, their loan customers. Whereas in our case, we have an external DSA channel. And even as you speak about 80% of the business is coming through 79% through the DSA channel. So, they source from the open market. And they also, when we look at the customers and look at the NACH that has been presented, I mean, just about 15% or something only is coming from, 15% to 18% is coming from Canara Bank customers or customers who also have a Canara Bank account.

Interviewer: They are still taking it from you?

Suresh Iyer: Yes, there may be a Canara Bank, they may be having a bank account with Canara Bank and they will be doing the basic banking with Canara Bank, but then they still take a loan from us.

Interviewer: Why is that so? Because some effort is made there. What is that yield differential?

Suresh Iyer: That yield differential, see our yield is about 10.08 as on 30th of September, our yield, blended yield of all the loans, housing, non-housing, salary etcetera.

Interviewer: But I mean, same customer, how much he is borrowing from Canara Bank and let us say, it is what about seven point, your prime?

- Suresh Iyer:** Our prime customer would be about 8.7% is the lowest we offer to them, the best customer, housing loan. Whereas Canara Bank, 8.7%. Canara would be doing about 7.5, 7.5 or something.
- Interviewer:** Sometimes I wonder because this is really important decision, like it is not that every year we take a housing loan. If someone has already has a relationship or at least an account, if you make effort and go to the bank and put the number.
- Suresh Iyer:** That is true. So, quite a few things are there. One is, the banks, even now, I mean, it is a very valid question, and banks are offering such a, but the banks mostly are present in the larger towns and larger metros than the tier one towns only and that also within the corporation limits. Like today even, say for example, I say Bangalore, then Bangalore city, yes, Canara Bank would be very active, and customers would be preferring that. But the moment you go on the outskirts, say you go to Moskote, you go to, you know, you go to Pingari or you go to Bidipi or Ramnagar, there, you know, the banks are not so very active. This is called as the branch manager has bigger targets or more targets to agriculture.
- Interviewer:** They may be present but not active.
- Suresh Iyer:** Not active in the home loan space. Their targets are more for other products because bank has a very large suite of products. So, the metro branches are more into the retail and asset products whereas the, you know, financial inclusion, the agriculture loans, the smaller MSME or these kind of loans, that is where the smaller branches or the interior pockets, the branches are operating. Therefore, it is not that they are directly competing and there in fact we have our dedicated branch, we have a decentralized sanctioning power. So, our branch manager also might be having the powers to sanction a loan and, you know, quicker tap because they are able to visit the property, take a call to the local legal and technical and clear the loans so that disbursements also happen faster. So, that is the kind of thing. And many times what happens is we are the first ones to enter in terms of the developing area. So, suppose it is from where in a new area, say quite a little new area, we would be the ones where the infrastructure is also not ready, but the housing is coming up. We would be having loans there. Our DSAs would be sourcing from there. So, only when the area gets developed, the population starts moving in and all, then the banks or the bigger players start moving in. So, these are basically the basic differences.
- Interviewer:** So, there are green shoots in terms of disbursements finally. But the concern is when you are migrating to LMS sellers, whether there will be any tipping issues, both from vendor in terms of implementation and from personal, your own personal in terms of understanding, logging in the cases. So, we have benchmarked you with other HFCs who have migrated in the past LIC housing hours. There it was a two-quarter sort of an impact, tipping issues. It was quite gradual. So, from your perspective, will both the systems run in parallel or how have you planned, especially because now disbursements are critical for Can Fin operating performance-wise. It has been quite prolonged and slowed down.

Suresh Iyer: Correct.

Interviewer: First e-Khata issue and then elections.

Suresh Iyer: Correct.

Interviewer: So, it is quite critical from that perspective.

Suresh Iyer: I understand. See, first of all, LIC, I am not so sure, but definitely ours, the difference was that they had it between LOS and LMS. So, there was a lot of, you know, they in fact had to, the integration issues were also there. They had to therefore postpone the LMS implementation. They planned to have both implemented together. Then they had to separate it out. LOS went first with Salesforce and LMS got done a little later after all the issues were sorted out. And therefore, there was a bit of a problem and delay. But in our case, we have taken care that the LOS, LMS provided the same. Therefore, Pennant is also the LOS and the LMS. So, their connectivity or their integration is already stitched in. It is already working in Bajaj Housing Finance. And what we have been given to understand is that almost 85% of the application because compared to some of the other players, our products are much more simple. We do not have the complications of appraised income. We do not have such a large deviation matrix. We do not have those kinds of things. So, it is much more simple. So, 85% of the application is as is, where is, where there is no change, whatever is present and what we are following is exactly the same. So, we do not have to do any unlearning or new learning or change of process, except that the UI, UX will change. The flow will change and then the path to a particular transaction will change. So, those basic things will be there. But other than that the understanding or the core application does not change. Then there are a set of integrations or configurations which have to be done, like API attachment for the PAN verification, Aadhaar verification, which is also standard business practice across the industry, just that they will have to still do it with our partner. So, whoever we have tied up with our PAN verification, Aadhaar verification, account aggregator and all those kind of things, that is also a routine kind of a thing. It will not change any of our processes. So, the only place where the system can be a little different or will have to be modified to require, to our requirement that there are only about nine small areas where they have identified after this time. Whereas Can Fin has a specific requirement which is not present in their present application and which they have not implemented in any other current vendor also, current customer also. So, those are the only things where we may be required to do a more extensive testing or that kind of thing. Otherwise, it is basically already functional, tried, tested, operational in other---. But teething problems, I obviously cannot say there will not be any because currently also our people are used to this current LOS, LMS application. For the last 14 years, it has been operational in Can Fin. So, now to get out of it, it will take a bit of a change. But I guess it is more of a how soon they are able to adapt rather than any new unlearning or learning. So, that is the only thing we do. As far as the implementation is concerned, I think we have had a number of meetings and everything and both IBM as well as Pennant, which is the OEM giving us the LOS, LMS as well as our implementation team. All of them seem to have

the comfort that so far everything seems to be going fine, should not be so much of an issue. Part of the implementation is also already been done as I was explaining the SD-WAN part of it, the Microsoft Office and Microsoft applications part of it. The some part of in accounting GL because we have already implemented the borrowings treasury ALM modules. So, that comes with some of the applications relating to our GL or financial accounting package. So, some of them are already tested. Then HRMS or deposits and all are not having so much of a impact on the branch or the.

Interviewer: So, DSS are already integrated with the

Suresh Iyer: Sorry.

Interviewer: So, the DSS, they will be integrated smoothly with the new LOS

Suresh Iyer: Yes, yes. It will all be obviously part of it.

Interviewer: And when you are giving this guidance, annual guidance, how much cushion do you have if there are any technical issues that will still make the guidance?

Suresh Iyer: So, the way that the business has been moving like even this month instead of so many holidays, we have done 800 plus disbursement, Rs. 800 crore. So, that is the basic on the ground. We definitely have the confidence that things will be going fine. I mean, in terms of the demand and everything, there is no let up or anything. Demand definitely is positive. So, we will definitely not have that as an issue. The only thing is how soon we are able to adapt to it. So, we are putting more effort into the training part. We are putting more people in terms of the testing and everything so that at least 20% of the application, which consumes 80% of the time, the main critical applications. There everything is going smoothly. So, one or two issues here and there. One of the exclusive cases may happen but majority of the applications will go smoother without much problem.

Interviewer: 1000 in Q4 per month that is the guidance.

Suresh Iyer: Correct.

Interviewer: So, 800 is in line with Q2, was 2500. So, it is more or less in line with what we did in Q2. So, sir, first half we did 8%, right, growth cumulative. So, the second half, we have to do a lot of heavy lifting to kind of, otherwise our yearly target.

Suresh Iyer: See, last year, if you see in our Q3, because the e-khata also hit in 28th September-27th September last year is when the e-khata issue hit us. So, last year, Q3 disbursements was a big drop. We were able to do only about Rs. 1850 odd crores. So, therefore, this year when we are talking about 2500, in fact, since our implementation is slightly moved back by about two weeks

or three weeks, what we are saying is instead of 2500, we plan to push now for 2800 in this quarter.

Interviewer: In Q3?

Suresh Iyer: Q3, because obviously when it is slightly going back, then we should, we will try to push more at this point. That is what is the plan. And 800 we have done. So, we should be doing not in Q4, we should be doing 1000 in November and December as well. That is correct.

Interviewer: But parallelly what is happening is, if you look at system home loans, which RBI publishes, there is a slowdown. So, either you will have to increase the market share or activate the efficiencies within the system. And this currently, almost 30% is from Karnataka and again 25% is from Telangana.

Suresh Iyer: No. Telangana is just about; it is about 12% to 15%. 13%. So, Rs. 100 crores, so we have done about more than Rs. 800 crores, right now about Rs. 102 crores this month as well.

Interviewer: So, that you are expecting it to go to Rs. 200 crores, Telangana?

Suresh Iyer: No. Telangana will move to 125 only, we are okay with that only. But our Karnataka, which has been a little slow, 200, 225 and all, now we are reaching a stage of Rs. 250 per month. So, about Rs.750 crore of the disbursement will come from Karnataka this quarter.

Interviewer: Okay. And the new geographies, that will also contribute? You are expecting that to contribute?

Suresh Iyer: Yes. Our north is already growing at 25% plus. West, wherein, you know, our Maharashtra was still stabilizing, has also kind of stabilized. So, the last couple of months, they have had a good contribution from there as well. That is also picking up. So, west zone also now is 25% plus in terms of our growth compared to last year. Tamil Nadu continues to grow at 20% plus, north goes to 25%. And east, which was last year almost flat, has also started doing 30% growth because post this change of government, a new government, there are a lot of positive vibes and a lot of good decisions are being taken, like new investments coming in, new infrastructure projects being announced, okay. The capital again shifting from and final decision on the capital also happening of Amravati. So, all those things are also improving the position in terms of our east zone. And Karnataka, because there was a drop this quarter itself, you will see that in Q3, we will be turning positive in terms of Karnataka.

Interviewer: So, the new IT systems, because of the improvement in TAT and our efficiencies, that will, of course, you said that OPEX will go up. Whatever now is being capitalized, it will move to OPEX, OPEX will go up. But without OPEX, just the throughput of the employees in terms of TAT or in terms of the decision making and efficiencies kicking in from productivity point of view, that will release some capacity and so you can take more files, DSL files.

Suresh Iyer: One is more files and second is we expect to actually get a few people relieved to move to sales team because we had started last year as a pilot with the internal sales team. So, that now we from July, we increased the strength from 39 to 90. Today, we have about 87 odd people in the sales team. And this incremental business, we are contributing about 8.5, 8% to 8.5% of the incremental business now is coming from the sales team with 90 odd people. And that we will be able to add to those team because some of the people will be able to pull out regular business today because of the efficiencies and move to sales. Plus, we will also be adding people. So, that is basically the thing.

Interviewer: Okay. So, is there any idea how much, how many people might be?

Suresh Iyer: We eventually, at least in the next two years, we want to take it up to around 250 people.

Interviewer: Okay. And that is built into your growth guidance?

Suresh Iyer: Yes, yes. At least in the next two years, we want to do consistently to at least 20% disbursement growth so that our AUM growth also kind of starts moving because that generally comes with a lag.

Interviewer: Yes. You have put out roadmap 2028. So, these things are built into it.

Suresh Iyer: Yes, yes. We would like to have that also built into it, yes. Because what we have projected is that, you know, 20% of the incremental business should come from our sales team, which is today around 8.5%. And what we have said is that the current DSA level, even with a little bit of growth, will eventually become 60% because the share of our incremental business from a direct team as well as digital sourcing will improve. And digital sourcing is currently not there in our present setup, which after this implementation in January, we will be able to start getting, acquiring leads from the market, feeding it to our sales team, on-ground team, and we will be able to convert that business.

Interviewer: So, this will be like Google leads or Paisa Bazaar leads, something like that?

Suresh Iyer: Kind of, kind of. Not necessarily, so it could be any of these, there are many, many more like this from where we can.

Interviewer: Yes. That is the typical job.

Suresh Iyer: That is, that is the kind of job.

Interviewer: So, when we were discussing, there is some concern if you are moving to self-employed over the next two, three years, and even non-home loans are going to increase. The traditional USP of Can Fin, which is very low credit cost, strong asset quality and high ROEs, whether that will sustain, volatility in credit cost, volatility in asset quality, whether that will start creeping in,

because that has been the, even though you are DSA focused, there was no hiccup in terms of asset quality. Because of employed and home loan capital.

Suresh Iyer:

See, actually last year and.

Interviewer:

So, my point is, is it because your pie is shrinking, you know, the 25 lakhs ticket size there, it is getting crowded, the **(Inaudible) 28:08** going there that market itself is getting saturated. So, you need to go into these areas, or you are doing it.

Suresh Iyer:

I think that general progression of the property value if you see has been going up. In fact, today, even in smaller towns, like you say, any place like, you see Jalgaon or you see Ahmednagar or you see Sangli, property values today are easily Rs. 25 lakhs, Rs. 30 lakhs are the kind of property values, even on a normal small tier two towns, if you are talking about. So, to say that we will be doing Rs. 5 lakhs, Rs. 10 lakhs, Rs. 15 lakhs, that segment actually is really a very risky segment probably, unless this one. So, that is why that progression to the Rs. 25 lakhs, Rs. 30 lakhs segment is that, is because of that property, this only. Because land values have actually grown or increased substantially even in the tier two towns. Basically, it comes from that point only. And the second thing is, as regards your point about the volatility in the delinquency and the credit cost. Last two years, if you see, our credit cost in spite of our guidance has been 15 bips will be the credit cost. But, I mean, barring the management overlay that we have done extra just as a buffer, today if you look at the actual credit cost, it has been much lower than 15 bips also. This year also, so far in Q2, because our delinquencies have come down, we have had no, almost nil credit cost, it was only three, four provision, that was also to meet the growth because of book sizes gone. Otherwise, there was no additional provisioning we had to do. Q3 also, what the way we have, we are looking at the delinquencies, in fact, in absolute value, it may further come down, the absolute value of delinquency. So, in Q3 also, we do not expect a very, any major impact of.

Interviewer:

Sir, I have a question, the character of the company, from a 75% salaried home loan company, just five, six years back, I think we are at 60 now.

Suresh Iyer:

No, no, we are at 70:30, salary is 70.

Interviewer:

No, no, but I am saying that, okay, private salaried included. So, what I am saying is, used to be like a very stable almost sure shot, government employee taking a home loan and from there the ratios are shifting. So, what we are asking is will the character of the company, we were very stable, everyone wanted to do balance transfer from our company. So, how is that whole metric and how will it reflect in the numbers?

Interviewer:

And just to add to this point, only growth was a concern in Canara. Even if NIMS are 3.5% compared to a bank, despite being a single product and despite being interest rate sensitive, NIMS are 3.5, credit cost is 15 bips, always above 2% ROA, minimum 18%, 20% ROE. So, only growth was a concern. None of the other parameters were a concern and barring those

specific instances of frauds, there was no concern. Now, but if you get into the self-employed and channel jurisdiction is welcome, getting into digital sales people, all that is welcome. But just understanding the slab, is it necessary or just you can increase the ticket size, maybe sacrifice NIMS of 3.75 to 3.5 and still grow in a safe manner?

Suresh Iyer:

No, so there it is. If you look at it, we. Okay, self-employed actually, you know, it is, I do not think so very as risky as one perceives the general self-employed because we are not doing the self-employed with appraised income or surrogate income. Our self-employed when we are talking about, it is still with ITR only. So, it is still and that also now we are verifying the ITR which is filed in the income tax portal and from there we are assessing. So, it is not even, the customer gives a self-assessed and declaration or surrogate ITR and say this is my declared income. No, we are looking at what is reported and based on that only we are giving it. So, it is not the kind of self-employed that we see with the affordable housing finance companies which is based on undocumented income. So, that is one major difference. Lab and all it is still just 5%. So, it is not a major change that we are looking at. Today we are at 86% is the housing and lab plus top-up loans plus personal loans and plot loans all put together is about 14%. So, that we are saying will not go more than 20%.

Interviewer:

But in order to augment collection or call center probably.

Suresh Iyer:

Call center, we have actually, we earlier did not have a call center. Now we have a call center for all buckets of SMA 0, 1 and 2 and that is also one of the reasons why the delinquencies have also come down because we have introduced these collection mechanisms also.

Interviewer:

And one more concern is whether there will be any attrition of top managers. So many movements, so much movement around in each of these NBFCs, HFCs, because one of the premium for devaluation is also dependent on management, especially in financial services. You understand that? Stability of management is also as essential. So, this is applicable for top.

Suresh Iyer:

Sir, today sir's tenure will be, sir will be completing three years in March '26 and very shortly he will be

Suresh Iyer:

Basically for March, the extension for another two years, but the original tenure was three plus two. So, at the end of the three years, we have to go back to the board as well as to the shareholders. So, that process has already been initiated. So, at least five year tenure is not an issue. As far as I said, the rest of the team, the two presidents, both of them are homegrown almost 20, close to 30 or 30 plus years with the company. They have grown from within. Stability is obviously at this not an issue. Some of the other team members also whom we have got, like Joshi, who is the head of P&S, again 30 plus years with the company. Quite a few are there. The CCO, again, the head of credit, again, being a long person, long innings to the company. Only thing is, as and when they retire, because in the next three years, we have some of the senior people retiring, we will have to get. That is more because it is a natural progression, but nothing to do with the attrition of it.

Interviewer: Sir, one more. I see the yield last year was 10. This year is also 10. So, while the cost of funds, of course, has come down with a big rate. So, does it again expose us to BTs because it seems we are not adjusting our yields and while the cost of funds has been going down. Looking at the competitive intensity, I mean, that has happened to us in the past.

Suresh Iyer: That was earlier when the spreads and names contracted was when the rates started moving up and our loans were all on annual basis. So, therefore, on the asset side, there was a longer, there was a lag in the rate getting passed on, whereas on the liability side, they got reprised earlier. So, now what has happened is we have already corrected that from January 2024, where we have shifted our existing loans to or all new loans to quarterly reset. Existing customers who are on annual reset are also moving to the quarterly reset. Therefore, you know, and the next two quarters, we also see that before the next two quarters, maximum this kind of a scenario will remain. Then possibility is there of the rates started, starting to go up. So, by which time we have to ensure that we will be converting all our annual reset customers into quarterly so that when the rates move up again, there will be less of a time lag in the transmission of the.

Interviewer: So, how come, sir, with such a 100% basis points of rate cut, our yields are just flat on Y-O-Y basis?

Suresh Iyer: So, the thing is that, as I said, today also 58% of our loans have not moved from annual to quarterly. 58% of our current loans are still on annual reset. And the remaining 42% also is also because in January, whatever new business we have done anyway has come into quarterly. So, the incremental is only getting added in quarterly. But having said that, you know, today we have had a 100 basis points cut, okay. But the resultant impact on our liability side is that our cost has come down from 7.55 to 7.17, which is about 38 bips. We have already passed on 25 bips to our customers. We had in fact indicated in the last earnings call in July that in September around that time, we expect that our cost will come down. So, we will look at another 10 bips passing on to our customers. But incidentally, around that time there was a slight increase in a bond yields by 7, 8 basis points. So, we said, let us hold on and see how it behaves. But now that it has kind of stabilized and we know that, it is major is further expected. We are going to be passing on the 10 bips to our customer. But that again will not hurt our spreads and take it below 2.75 because today it is 2.79 already plus the fact that our incremental spread if you see in Q2 was 2.91. So, basically, even if you pass on 10 bips, we will still be able to maintain that 2.75. So, we would want to pass the 10 basis points, which I think will help plus what we observed is, the last one quarter, our majority of requirements that have happened have been in the annual receipt cases, which means that we used to send messages, customers maybe have not read it, they have not understood it. Instead, they have just gone and made a pre-payment. So, it makes all the more sense that we should go back, convince them and convert them to quarterly so that they also get the benefit. At the same time, we are also saved from the subsequent pain in case the rates start going up.

- Interviewer:** The second flavor of this season is, even though we do not capital, is PE infusions, private equity infusions. We have seen multiple NBFCs, HFCs, even if they do not require capital, confidence capital and the growth is just beginning. We understand Canara Bank tried in the past to reduce their stake and I know that overhang is always there. Overhang I say because the AAA rating will come off and cost of funds.
- Suresh Iyer:** But why would Canara Bank sell it? Earlier also, there was a compulsion from the regulator to do it in 2017-18. And that was when the banks needed more capital. But now there is, banks do not need the capital. Second thing is, still there was a little bit of a doubt because of that draft circular of October 4, 2024. But that also has been kind of withdrawn. So, now there is no need. And now if you see the direction which Canara Bank has shown is also quite clear because they have gone ahead and listed two of their other subsidiaries as well. So, and there also the DFS has also pointed out that the main objective of this listing or whatever is to bring in a little more transparency, a little more of oversight by an independent board. And to have a little more market participation rather than the only the parent single entity, which is it. So, I think the regulator.
- Interviewer:** Are capital-based plans being considered a rough issue?
- Suresh Iyer:** No, we do not, because our Tier-1.
- Interviewer:** Yes, there is no requirement, that does not have requirement, it was just confidence.
- Suresh Iyer:** And we already are growing a lot. Our ROE is around 17 plus, and we are growing it around there. But now we are talking about 12 to 13, next year will be 15. So, we are still, at least the next two years, we do not look at that. And then also when our growth picks up beyond that and we have to withdraw on the capital, at that time we still have a little bit of gearing scope because today we are at 6.61. Whereas even regulators are, I mean, our rating agencies are considerable up to 8x for AAA rating. I mean, we still have, at least till 7.5 we can go before we can look at something.
- Interviewer:** In case there is one more rate cut in December. So, from HFC's point of view, not just for Canara bank, from HFC's point of view, how do you think the yields will settle? One is just the rate cut. Second is finance minister and RBI, they will be talking about paid transmission. NBFC's also, we have brought up NBFC's point as well. Do you think that it will catch up?
- Suresh Iyer:** No, so if there is a rate cut, we will pass on whatever gets passed on to us, we will pass on, like as I said, 38 basis points, we will pass on 35. So, normally what we have seen is, it is only on the bank term loans where we experience that reduction. NHB does not do it. Although it is a regulator, they have not reduced the rates much. NCDs, they have the fixed rate. NHB is the other bigger thing. Then it is only deposits and CPs, okay. So, effectively 25 basis point works out to a 10 basis points reduction for us, which will be possible. So, it will still not hurt our spread.

Interviewer: So, after the post-2020, when you implement this SEMP and parallelly you bring in diversified channels, will there be a net improvement in terms of your PBT ROI? Right now, you will be paying 70 bips to DSA?

Suresh Iyer: No. We are paying, our blended is about around 45 bips to 50 bips.

Interviewer: 50 bips.

Suresh Iyer: Because we are giving a range from 35 bips to 75 bips. So, roughly it comes to around 45 bips to 50 bips.

Interviewer: This is commission, one year.

Suresh Iyer: Sorry?

Interviewer: This is 1 year or what is it, what?

Suresh Iyer: No, this is the commission we are paying for the, whatever is the amount of disbursement, we are paying them 0.45 to 0.5. It is a blended payout.

Interviewer: One time disbursement. Then their job is, they do not.

Suresh Iyer: Yes, there is no link.

Interviewer: So, that much, but you will have to parallelly, incentive structure to the sales team.

Suresh Iyer: Yes, sales team. So, only thing is that, once they are, they have reached an average, productivity or contribution of about Rs. 80 lakhs per staff per month in terms of the sales team. I think once they cross Rs. 1 crore, I think then it is, you know, we are still a little better off than the DSA channel. Plus, of course, the quality, because, the DSAs, they give us what they, is left with them, they give to us. Whereas in case of our own team, we have a choice of selection of customer, selection of the profile, selection of the segment, everything. Okay. Another thing is the stickiness is also better if it is sourced by our own people as compared to DSAs. Whereas DSAs every two, three years may shift this portfolio out also.

Interviewer: The second point I would check is that over the medium term, even though your ROA 2.2%, 2.3% and 16%, 18% ROE, but cost to income, when we have seen HDFC limited or LIC, they are at 14%, 15% cost to income. You are at 19%, including this office, excluding that as well you are around something around 18. There also there is some gap you can catch up. That will be bridged or, so eventually can 2.2%, 2.3% ROA, can they reach 2.5% over medium term, once you implement all these things. And hence ROA can reach 20%, because 20% is like benchmark for NBFCs, you know, with the growth of 25% CAGR, it is like a benchmark. So can you potentially aspirationally reach 20% ROA or cross that?

Suresh Iyer:

See, again, it is the give and take kind of a thing today. If you have to increase our ROA, cost of course, you cannot go beyond the bare minimum, because we have to be competitive in terms of our payouts, our salary structures and all those things. This time also we have to give a handsome salary hike to keep it comparable to the market or little better than the market. So all those things, so the only other control, there are three things, one is the spread and NIM, the second is your OPEX, and third is your credit cost, these are the only thing. Credit cost already I think we are the lowest, I do not think there is any further scope to keep it below this. 15 bps I think is the lowest. Again, credit, I mean, OPEX, yes, maybe you can say 14, HDFC is a different size that they were operating. But yes, aspirationally yes. So the only other way would be to increase our spread and NIM, which again would mean that we may have to compromise in the quality. So I think it is a sweet spot right now 2.25. We will try whenever there are some opportunities like this where we can push up our spread and NIM, we will look at that. But otherwise, we also do not want to do, frankly speaking, not too much of a compromise on the blend of the customer, 65:35 salaried, self-employed., it is also more because it is a little bit of a diversification. But beyond that, I also would not be very comfortable.

Interviewer:

And exchange-wise, borrowing exchange-wise?

Suresh Iyer:

That will happen, because going forward, we may not be able to give us that much amount of funding. There is a limitation they have to give to more people plus there is a limitation on our network plus their net worth and all those kinds of various internal points are there, checkpoints. So they may not be able to give us at the rate at which we are growing or at the rate at which over a period it may come down, which will be replaced by NCDs. Now in NCDs also, what we are doing is we are trying to slightly push the tenure of the NCDs. So we do not have much of a five year paper. Most of our NCDs are all three year papers. So obviously, for a long-term business that we are into, it is better to move to five or seven years, which is what we will be slowly doing. So now whatever issuances are coming, we are trying to go for a five year paper at least, if not a three, I mean if not a seven, sorry, at least a five year NCDs we are looking at. So NCDs might slightly go up. Thank you.

Interviewer:

It is a well-followed company, so there is also a lesson.