



“Can Fin Homes Limited Conference Call”

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**SPEAKER: MR. SURESH IYER – MANAGING DIRECTOR & CHIEF
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Interviewer: So we were facing some problems with Karnataka because the registry was happening frontline and then there were some problems in Telangana AP earlier as well. So now, we have reached a recent size, now here onwards what is the kind of growth which we see and have the issues been solved, what is the disbursement rate likely, and we have performed decently on margins. Do you see any change in the margin trajectory and credit cost and ROE?

Suresh Iyer: I will take one by one. See, in terms of growth, Karnataka, I would not say it has been entirely resolved. In the panchayat areas and all, we are still having some difficulty in getting this e-Khatas, so that is still a problem, but still we have been able to reach up to a level of, now we are kind of doing about Rs. 250 crore per month run rate, we should be able to start expecting.

Interviewer: Rs. 250?

Suresh Iyer: Rs. 250 crore per month kind of a run rate like this month also, we did about Rs. 248 crores November. So around Rs. 250 crore kind of a run rate we can expect. So with that kind of a run rate, around Rs. 750 crore this quarter, we should be in YTD positive in Karnataka this quarter. Other zones are continuing to grow at the same rate. We are quite, they are supporting. Only Telangana where we said we will, it is still a little slower than what we had anticipated. So right now, for the last 3 months, we have consistently been able to do more than Rs. 100 crore, but still the growth of 10% or that we were looking for may not come, but we will still be flat by end of the year. We should be flat or maybe marginally positive, but that still does not affect our overall picture because now Telangana is not the kind of old Rs. 160-Rs. 170 crores run rate per month. Anyway, last year we had done Rs. 1,200 crores. So there might be some impact there which will cover up from other states. So that is not a problem. The growth we are looking this year is around 10,500 disbursement that we had targeted will happen because Rs. 2,800 is what we are targeting this quarter and Rs. 3,200 in the next quarter. As against Rs. 2,800, we are already Rs. 1,700 plus in October plus November. So we are on course for Rs. 2,800 crore disbursement in this quarter. Next year, we are targeting, obviously we need to have about 15% growth rate. We will need to do about Rs. 13,000 crore is what we are doing. And I think with the little support from our IT plus the fact that our sales team is now improving month-on-month, even this month in fact, from the 8%-8.25% kind of contribution that they were doing, this month they have 9% plus close to 9.5% is a contribution that has come from the internal sales team. So that is also improving and we will keep on adding people to that team as and when and by FY '28 we intend to make it up to around 250 people, which is presently around 87. So in that sense we expect that we should be able to achieve that number that we are talking about for next year also.

Interviewer: So with a loan growth of Rs. 40,000 crores we have reached?

Suresh Iyer: We have crossed Rs. 40,000 this month, yes.

Interviewer: So what is the kind of a loan growth which is possible because at 40,000 you are like the biggest affordable housing player in the market, right? So from here onwards what is the kind of a growth which we can expect for the next 3 years in terms of CHF?

Suresh Iyer: See, 15% definitely should not be a problem in terms of AUM growth because now we have done around 8,500 last year. We are talking about 10,500 disbursement this year which is more than 20% disbursement growth. From here also, next year we will be targeting around Rs. 13,000 crore kind of a disbursement figure for next financial year.

Interviewer: And FY '27?

Suresh Iyer: FY '27. So that will help again further improve from our 12% odd AUM growth this year to around 15% next year and.

Interviewer: What is here the maturity of the back book?

Suresh Iyer: Sorry, maturity?

Interviewer: Maturity of the back book. What is the maturity of the current book?

Suresh Iyer: See, our average tenure in the books is around 8 years.

Interviewer: 8 years?

Suresh Iyer: And current run down is approximately around Rs. 550 crore per month. So that means around Rs. 7,000 crore will be the run down next year.

Interviewer: And you are talking about the runs down you disburse is Rs. 13,500, so roughly?

Suresh Iyer: No, this year it is a little less than 7,000. Now, it has been inching up. So this year we should be having around, we had 1469 or 1459 in first quarter, 1661 in second quarter. So that is around Rs. 500 crore. Going forward this, now it is around the same number. So another 3,500 is what we are expecting, 3,400 approximately is what we can say will be the run down in the current second half of the year. So if that is the kind of run down and we are doing about Rs. 6,000 crore disbursement, then addition to the book should be around Rs. 2,800 crores.

Interviewer: So that is a recent number. And if we look at poverty yields of the cost of funds who dropped sharply in the second quarter to 7.1% and yields improved.

Suresh Iyer: Yields held. They held.

Interviewer: Spreads improved dramatically.

Suresh Iyer: Spreads improved.

Interviewer: Yes. So do we see that sustaining in Q3-Q4?

Suresh Iyer: Q3-Q4, actually we are getting, in Q3 also, we have been able to raise the funds at the same level, in fact lower because NHP we have got about, we have raised Rs. 500 crores, we have a sanction of Rs. 1,500 crore, but we have raised only Rs. 500 crore this month in this thing. So that has come at around 6.3%. Our bank borrowings all of them are at 7.1% or below whatever we are doing, and we are actually sitting on about Rs. 4,000 crore of unutilized sanctions. And it was all at around 7.1% or below. In terms of our CP, of course, it is the percentage has also come down because this has been less, but we have a scope. Right now, it is around 4.5% only CPs whereas it used to hover around 7% CPs. So now it has actually come down our CP because we have got a comfortable sanction pipeline from the banks and all plus we have NCDs where we expect the rate to be around 7.3% that is today. That is what we are trying to raise at 7.3%. But actually, if the rates go down, of course, it will have a corresponding impact on the NCD rates. So I think 7.1%-7.15% what we had, 7.17% is what we had in Q2 incremental, Q2 borrowing cost. I think we should be around 7.15% not beyond that in any case.

Interviewer: Was the each holding there at 10.5%-10.6% or it has come down?

Suresh Iyer: No, our yield was 10.08. So I think 10.08 we have passed on a 10 bps from December. So that might slightly come down and as of 30th of September, our cost of borrowing was 7.29 because first quarter was higher, then we got 50 bps from June. So that got benefited. So second quarter we had 7.17. So basically that 7.29 to 7.17 is where we will move in the next 6 months. So that is what we have passed on to our customers. So the yield will come down a little bit. I expect it to come down to around 10%, 8 bps because we have passed on 10 bps to our customers, 8 paisa will definitely come down. So 10% is what the yield will be as against 7.

Interviewer: What will be with regard to spreads?

Suresh Iyer: So spreads will definitely hold 2.79 as what we have said. But I think we are, I do not think that 2.75 that we have guided will be a problem.

Interviewer: And margins to hold up I see.

Suresh Iyer: Yes.

Interviewer: But I think Q2 levels. So that is a very good margin to win and our credit cost in the last quarter was very low just 3 basis points.

Suresh Iyer: Because our absolute value of delinquencies came down and this quarter also we are expecting it to further come down a little bit. So we were at about Rs. 3,780 or something by at the end of June, it came down to Rs. 3,849 crores in 30th of September. We expected to further come down

to Rs. 3,750 by this which means in Q3 also our credit cost will be minimal. It would not be more than I think Rs. 3-Rs. 5 crores I guess.

Interviewer: So that is a very good number Rs. 3-Rs. 5 crores and if you look at the way ahead for this entire year 26-27, do you want to hold on to the margins or reduce your spreads or reduce your yields and garner more market share?

Suresh Iyer: I think we might have a little scope to pass on a little bit to our customers further also, notwithstanding whatever happens in this thing. If it happens further scope is there to reduce, but we may be able to pass on some or make some good offers in Q4 to get some business that is possible. But next year, the only thing is, in FY '27, there will be a little increase in our OPEX because our IT transformation implementation is already going on. So that will obviously, we have already guided for that our cost to income ratio slightly inch up by 1%.

Interviewer: Your credit cost similar?

Suresh Iyer: Same as that. We have been guiding for 15 basis points, but I think it will be lower than that. I think in the last couple of years also, whatever, wherever it has happened is mainly because we also had this management overlay. But whatever we created the management overlay for we have not actually utilized it because when we had the portfolio coming out of restructuring, we actually charged from the respective quarter results in this. Basically, we did not have much of an impact, the management overlay stays, but now there is no need for a management overlay because now the entire restructured portfolio has come out of it and now our delinquencies have also started coming down in absolute numbers. So I think there is no reason to create more management overlay now. So 15 basis points that we have guided, it will be lower than that.

Interviewer: So just one more thing. Yes. Things are looking good. And what is the situation of the new PMAY because it was little stricter than the last time?

Suresh Iyer: PMAY, so far it has not picked up because there is no incentive for the builder in this basically. Last time, since it was up front, the entire 2.67 lakhs whatever was up to 2.7 lakhs, 6-7 lakhs was the subsidy that was up fronted and this time it is not. So basically, the builders do not stand to get anything, it is only about 35,000 per year that a customer will get and that also if there is no BT, if there is no default and the customer continues for 5 years. So then, every year, they will get about 35-35 because the amount also has come down from 2.67 to 1.8 lakhs. So basically, divided by 5 it comes to about 35,000 per year which is equal to about 1 or 2 EMIs. So that way the builder does not get anything out of it. So the supply I am not sure how much is the supply that will come into the market for this. So far, the supply has not come, but it is fingers crossed because last year also or last time also, when CLSS was introduced in 2017, the first year did not see that kind of euphoria, it only started a little later. So we will have to wait and watch, but so far it has not picked up.

Interviewer: And are we looking at new geographies to grow because at Rs. 40,000 crores book size, they have to disburse Rs. 12,000-Rs. 13,000 crores on an incremental basis to put it at 50%.

Suresh Iyer: Correct.

Interviewer: So what are the new geographies you are looking for? Are you looking for penetration in the current geographies itself?

Suresh Iyer: Current geographies, definitely yes, we have already, I looked at around 20 odd branches where we think we can open branches, but we are working on them right now, so that next year when we get the approval for opening more branches from the board, we will immediately be able to open it. And like we did this year, we will be able to upfront the branch opening so that we get some benefit in the same year as well. So next 2 years, we are looking at something like 50 branches to be opened in the next 2 years.

Interviewer: And you will continue to be operating in the same areas where you want to operate?

Suresh Iyer: By and large, we are there everywhere, we are in 21 states, we are already there. So it is only that within those states, we will look at expansion. So this year, 2 years, 2-1/2 years since we had issues in Karnataka and Telangana, we have not opened any branch in Telangana and Karnataka, mostly it has been in North West. Last year onwards, post this change of government, we saw good change in sentiment and improvement in business in Andhra Pradesh. So in AP, we have opened totally 5 branches, we have done. Tamil Nadu also, we opened some branches. So we will see within those geographies, we will open, but once Karnataka stabilizes, we have become some growth in Karnataka, we may open a couple of branches in Karnataka also.

Interviewer: So what is the average ticket size as of now?

Suresh Iyer: It is about 25 lakhs.

Interviewer: It has increased?

Suresh Iyer: It has increased. It was around 22, now it is around 25.

Interviewer: In the last 3 years, it has increased from 17-18 lakhs to roughly 25 lakhs.

Suresh Iyer: In 2020, it was around 18 lakhs, I suppose, then 22 and now it is 25.

Interviewer: And currently, roughly 87% is just home loan and 32% is non-home, basically that is LAP, right?

Suresh Iyer: 86-14, yes.

Interviewer: So how do you see the mix shaping up going forward in the next few years?

- Suresh Iyer:** See, we have already said our strategy is that by FY '28, our salaried self-employed should be 65-35 and our housing, non-housing should be 80-20. So 86-14 has to move to 80-20 and right now, we are 70-30, it will move to 65-35.
- Interviewer:** What is the thought process and further rate cuts from RBI? Will you see further rate cuts from RBI or what could, not just immediately, but in the next 6 months, how do you see the rate cycle shaping up and how do you manage your borrowings?
- Suresh Iyer:** See, rate cut, maybe there is one part of it, but beyond that, I personally do not believe there is hope for our economy to be giving any further rate cut. Then after that, the reversal has to start. Now, how much we are able to hold on and then start the reversal, but somewhere, eventually the rates will start moving up a little bit. So strategically, what has happened is we have moved all our bank borrowings to external benchmarking, EBLR linked borrowings. So if the rates start moving up and whenever the reversal happens, we could again be in the same problem that happened in 23, sorry, 22-23, where the rates were going up and our assets were on an annual reset basis. So that is what our endeavor is that in the next couple of quarters, that is Q3-Q4, by March we want to target that all our loans which are on annual reset move to quarterly reset. So once that happens, then on the liability as well as on the asset side.
- Interviewer:** Because even if they have quarterly reset, there would be some lag in the price. Because if you look at EBLR, many banks, they just ask, today if there has been an increase in rate, 2 days later, next day people get SMS that your rates haven't been decreased and then they will?
- Suresh Iyer:** So we have also an option that we can also increase it every month, there is no restriction that we will be able to do it. Only thing is, if we do it in a quarter, suppose the rates go up, we will pass on 10 basis points from the same month. But what will happen is, some one-third portfolio will move in the same, very next month, one-third will move in one month later and one-third will move with this thing. So when we increase the rates, we will have to actually factor in a little bit of that.
- Interviewer:** And how is the 0 DPD, 30 DPD is shaping up?
- Suresh Iyer:** Overall, it has improved. Overall, our delinquency has improved. In fact, in December 24, it was 4800 was our overall delinquency including 0 plus one day DPD also, that came down to 4266 in March, which further came down to 3980 in June, further came down to 3849 in September and December, we expect it to be around 3750. And so far what has happened is, our strategy was we will cut from the bottom. So we first decided to work on our probable SMA 0 and SMA 0, where the maximum amount of reduction has happened, whereas our SMA 1, 2 and NPA has been kind of almost stable in this period, very marginal reduction has happened. But now with almost, Rs. 1,000 crores reducing from our SMA 0 pool, the pressure on SMA 1 and 2 is less and therefore, we should now start seeing some more improvements in SMA 1 and 2 buckets also.

Interviewer: So no problems as such there--

Interviewer: Yes, sir. So number 2 basically 44 was the total area, 6,600 you said that they sealed the BT out basically like pre-payment including everything and disbursement is 13,000. So approximately growth of 10% on Y-on-Y basis?

Suresh Iyer: No. This is I am saying going forward, but last year if you see as I said so far in Q1, our pre-payments were below 500, not 600. So Q2 was 500 and something Rs. 550 crores. So that way if you look at it, our portfolio, we should be around close to 12% is the growth that we should have this year. Next year, the pre-payment for the full year we will anticipate around Rs. 7,000 crores is the total pre-payment next year. At the same rate, if you look at it on a quarterly basis, we should expect around, but this year overall it may come to around Rs. 6,200 crores, something like that.

Interviewer: What will be your affordable housing finance? Because we have seen that 19.21 and now that is filled to affordable housing. Are you seeing any signs on some of the affordable housing which operated in higher ticket size?

Suresh Iyer: We have not seen that kind of a thing because our customers are not having much of overlap with the MFI customers. I do not think hardly any of our customers will be having MFI loans and stuff like that because and the last 2 years also if you see, we have been focusing more on the 20 lakh, 30 lakh segment rather than on the below 10 lakhs or below 10 lakh has consistently been for the last 2-3 years coming down. So we have kind of exiting from that segment where that overlap can happen.

Interviewer: And sir, you are talking about projects to AUM where for a 1%?

Suresh Iyer: Increase next year.

Interviewer: 1%, that is mainly because of the technology?

Suresh Iyer: Yes, technology and all these things.

Interviewer: And branches, 50 branches to be opened and any new geography you are targeting or is it same geography?

Suresh Iyer: Same geographies, within the same geographies, we will look at pockets, and we will look at it.

Interviewer: Sir, has RBI or any regulatory body or anybody from ministry hinted that now the banks in there, NBFC should lower their guardrails and start lending more and stuff like that? Because whatever pain has come in the economy was self-inflicted because of the tightened MFIs, personal loans and everything and that has taken the economy down. If you look at the personal loans, they have not?

- Suresh Iyer:** So they have not, they are only, giving the benefit in terms of lower interest rates, which is called demand. But other than that, there is nothing to say that you start taking more risks to do it. So on the regulatory side, there is no relaxation or things like that, which should be going like that. So not at the cost of quality, that is I think the message.
- Interviewer:** So what is your take on the economy? If it goes on as it is, will there be any improvement? And the nominal GDP growth rate, the real GDP growth rate, because the real GDP growth rate, I don't think it makes real sense. So what is your take on that and the loan growth to the banking system?
- Suresh Iyer:** No, growth will be there. I don't think that is so much of a worry because one is that there is, it is not that they are only talking about realignment of the growth. Like, for example, when the bank started giving us, taking more exposure on the HFC sector and all, where it is all secured book. So those kind of things, so by and large, I think the banking is looking at a lower growth rate kind of a thing. There will still be growth is not an issue. And in our segment also, I don't see any slowdown in terms of the new launches, in terms of the new demand or anything of that sort. Property prices and cost of constructions are also going up. So it is not that it is going to make any impact.
- Interviewer:** And with tariffs, say, or IT slowdown, because of slowdown in the US, do you see any impact in the markets?
- Suresh Iyer:** Not yet, but yes, there is definitely talk of no detrenchment, people leaving, job cuts and all, definitely it is there. But frankly speaking, right now, more than it, it is more because of the AI kind of a thing where people are fearing that it will be job cuts because of a lot of AI coming into the thing and lot of routine jobs and all getting affected lower. So that is definitely there. But so far, it has not impacted in our, we have been monitoring because last 2 quarters, at least last 1 quarter, definitely we have been seeing where the first slippages are happening, whether it is from the IT sector, which sector, what is the main thing. But so far, it has not been much, but at the same time there are other opportunities also. So overall, there is a thing that there will be a very short-term pain, but eventually the jobs, the guys will get absorbed. Maybe, there will be other openings like, now they are talking about other pockets coming up, GCCs and stuff like that. So basically, they will get some, it is not that they will be completely, there have to be some kind of reorientation, reskilling and all, but it will be possible. There will be some short-term pain, but not in the very long term. It is not going to be a complete.
- Interviewer:** Any plans of capital based?
- Suresh Iyer:** We are comfortable because right now it is, if you look at it, our growth has been lower, much lower than our ROE. So basically, our gearing has been coming down. Consistently, if you see today, we are at 6.61 and the rate at which we are growing and the rate at which our ROE is sustaining at 17%-18%, I think this year also, further, our gearing might come down a little bit. So there is a good scope even to sustain for the next 2 years, even at a higher growth rate if we

maintain, we should be able to take it up to at least 7.5 times we can easily take our gearing. Rating agencies up to 8% are fine with us, but 7.5% we can definitely take. So there is a good amount of scope to increase our gearing and still sustain.

Interviewer: Thanks a lot.

Suresh Iyer: Yes, that is fine. Thank you.

Interviewer: Thank you.