



“Muddy Waters Research Conference Call”

September 25, 2025





*Muddy Waters Research
September 25, 2025*

Interviewer: Asia.

Interviewee: We just started recording.

Interviewer: Yes, no problem. So Muddy Waters, just to give you some background, Muddy Waters in Texas, our Head Office grew out because Carson Block was in China. He was coming across various companies who're quite fraudulent. So he ended up being a short seller.

Now, before you get stressed, what happened was about 6 years ago when people decided they were coming out of China, we turned around and said, "Okay, how as a firm do we think about that? What should we do?" And that gave birth to Muddy Waters Asia, which is a long-only fund. We are looking to invest in companies and countries where money is people redirecting their investment out of China and into other places.

We started in Vietnam because it's relatively small and so obviously compared to money coming out of China, it was the biggest impact. We've been there, as I say, for 5 years and now our Head Office actually is in Muddy Waters Asia head office is in Vietnam in Ho Chi Minh. Cecilia is Vietnamese and now having I think we've got Vietnam vaguely under control, we're expanding into India. We get our KPI next month.

So a question I always get asked, how much you got invested? And I'm like, well, the fund hasn't started yet, but it will be starting in December, and we will be launching properly. So, January next year once we've got going.

Interviewee: What will you have? Tea, coffee, green tea?

Interviewee: I'm very happy with just water.

Interviewer 2: Yes, me too.

Interviewer: We've had enough meetings and coffee. So we're in the process of narrowing down our list. We're industry agnostic, don't care about that. We are what I describe as a make money firm. So, that is our mandate, not follow an index. We can go wherever we want. And what in general has worked well for us elsewhere and I have been in Asia for 30 years is finding the entrepreneurs that can navigate the waters well and back them and stay with them.

So when I look at our Vietnam fund in our fundamental book, we started off with 20 names, five we gradually decided over time didn't merit, but the other 15 are stayed in the book all the way through. Shareholders go up and down depending on valuation, but the people we choose to back at the same.

I'm expecting the list will be longer in India simply because there are a lot more companies in India than there are in Vietnam and what we are really interested in this stage is understanding a business model, understanding strategy, understanding capital allocation. I don't care about your next quarter's earnings. That's just not something that affects us one way or another. Well, obviously, you suddenly get bankrupt. It doesn't tend to bother us, but other than that we are much more interested in where we think you are going to be in five years' time than today.

So I used to come to India a lot 20 years ago. Bits have changed dramatically. Bits are exactly the same. I have never met you before. We have looked a little bit at your business. We have sort of read the IR material and stuff like that, but be lovely to get an introduction and then a sort of this is how we think about life, this is what we are trying to achieve, that would be great.

Interviewee: Sure.

Interviewer: Thank you.

Interviewee: Yes. So, I guess at least the background of the company and all you are aware of, so I'm not getting to that. But you know, being from a kind of a bank promoted, having a bank promoted background, we are a little more conservative in our lending as compared to the market is what I would say to start with.

So, as a strategy, what we have done is one, it was set up, this company was set up with a purpose. The purpose was to basically provide funding and support for home ownership to create more home ownership. And in that context we have been, therefore, concentrating more on the first time home buyers and people who have genuinely in need of the housing. And obviously, it is the people who are in the lower bracket. They start small, of course, so our funding for the second house or for farm houses or for industrial plots or things around, it's not there.

Purely we are a retail lender and we don't have any corporate book or any developer book. And our ticket size also, therefore, has been a little on the smaller side. Our basic focus is on the bigger cities on the outskirts where the new developments are happening and where the people are likely to get the houses which they can afford when they start with. Of course, they may sell and that those areas may develop and the prices may go up, but at least there is a good this thing.

And today our portfolio is about 70% is a salaried segment. So, that is a very safe segment and there we have a proper documented salary slip and everything with PA. So, therefore, we know that the income is very stable and that is reflected in the fact that our GNPA's for the last 10 years have always been below 1%.

And second thing is that we also, as I said, mainly are for home loan. So, unlike a lot of other housing finance companies have also a fairly large lending under the LAP product, loan against

property or mortgage product, in our case it is purely for the home ownership only. Today about 86% of our loans are given only for house purchase construction or those kind of things. It's only the balance 14% basically is the only non-housing category, which is top-up loans, a loan against property and plot loans. So, our main focus is on salaried segment and home ownership. These are the two major things.

As mentioned in terms of our background, we are having a fairly large vintage where incidentally the oldest housing finance company in the country with a housing finance license. HDFC of course and all was there, but now they have converted into a bank and surrendered their housing finance license.

So, among all the housing finance companies, we are the oldest, and we are having a presence across the country. So, we understand the markets across. The entire operations are spread or divided into six zones for us, but predominantly it is the zones in the south, the southern markets where we have 70, almost little less than 70% of the business is from the southern states only.

In terms of, as I said, our conservative approach has been there, so our credit costs have always been less and with this kind of a vintage, with this kind of performance over the years, we have the highest rating Triple A from ICRA and CRISIL. So, therefore, our cost of borrowing is one major advantage that we have. We incidentally among all the housing finance companies have the lowest cost of borrowing. That gives us along with the lowest, almost lowest credit cost ratio and the very low cost-to-income ratio gives us a flexibility to also be attractive in terms of the lending that we do, the cost, the pricing that we give on the loans. But we ensure that our spreads remain at 2.5% or above. We have at least ensured that we will not compromise on the spread.

Interviewer 2: 5% spread.

Interviewee: 2.5% spread.

Interviewer 2: 2.5.

Interviewee: 2.5% spread. And therefore, our NIMs are around 3.5 to 3.75 and so on this analysis, if you see the ROA tree, we therefore are able to manage at a ROA of around 2.2 and above. So, currently, our ROA is 2.2% plus, and we have a ROE of around 17%.

Interviewer: And what do you see as being a sort of medium-term growth rate, asset growth rate?

Interviewee: See, asset growth rate, at least in the medium term, we are looking at a 15% CAGR. That is a 15%...

Interviewer: Self-funded.



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Interviewee: Self-funded.

Interviewer: Yes.

Interviewee: Mostly self, because at 15%, I don't think with the ROE of 17%, we will be required to raise capital.

Interviewer: Yes.

Interviewee: Yes.

Interviewer: And any other, so what are the constraints on that growth? I mean, as you said, you keep your ROE at 17, you grow up 15. You can grow for as many years as you want. What if anything would slow that growth down?

Interviewee: See, in terms of the liquidity as such, as I mentioned, because we have the backing of a bank rating is also there, in fact, we have not had any issue in terms of liquidity. So, the only things could be in the past things like if there is a liquidity crunch or something, we may have to slow down. Alternatively, if there is a, you know, the only other thing is you know government incentives is one area where you may have. It's coconut water.

Interviewer: All right. That's very kind. Thank you.

Interviewee: I can understand too much of coffee, they can sometimes have, you know.

Interviewer: Yes.

Interviewer 2: Thank you.

Interviewer: Yes, fizzed up. Thank you.

Interviewee: Yes. So, liquidity is sometimes can be an issue, which in our case at least has not been a major issue. Even the 2008 Lehman Brothers issue or the 2018 issue which happened because of the problem here in India of ILFS and three, four companies going bankrupt and the entire industry having a problem, there also, in fact, incidentally, we have not had an issue even during those periods because of the rating and because of the backing and other kind of this, that we have. But the only other, therefore, thing that could happen is, if there is some government incentives or some government regulatory something comes up, that is the only other problem.

And to be very frank, the other thing which I am sure you would be aware of, but which keeps coming up again and again in every investor meeting is regarding the what if the parent

withdraws or sells the stake? And that is one issue which comes which as such has not happened and I don't see the parent actually having their intent to offload any time in the near future, but still that keeps coming. So, at least it is my duty to inform you.

Interviewer: Is there any reason why they would?

Interviewee: Only if there is a regulatory compulsion they would is my belief.

Interviewer 2: But how much of your borrowing comes from your parent?

Interviewee: Very less. In fact, today, I think that just about INR 2,000-2,200 crores is the borrowing that we have from Canara Bank and our total bank borrowing itself is close to INR 20,000 crores.

Male Speaker: INR 20,000 bank borrowing.

Interviewee: Bank borrowing is INR 20,000 crores. So, this is 10% of the bank borrowing. If I look at the overall borrowing, it's about INR 35,000 crores. So, it is not even, it is just about 6%-7% of the total borrowing comes from Canara Bank. So, it is just one of the other banks. It is not even the, you know, we have three, four other banks who have lent us more than Canara Bank also. So, it is not even within the banks the highest lender to us.

Interviewer: Well, I mean, just the bit I didn't really understand in the history is why did you get carved out as a separate company?

Interviewee: See, traditionally if you look at it, we are talking about way back in 1986 when the company was formed out. So, at that time, if you look at the overall structure, there were DFIs, development financial institutions like ICICI, IDBI and IFCI. Then there was banks.

So, the development financial institutions used to go absolutely long-term lending, which could be for infrastructure. It could be for ports or any such thing. It could be for all those kind of things. Then there were banks which were basically for working capital and term loans, okay, and then there were this NBFC kind of a segment, which was basically into all those other kinds of lending like lease, discounting, ICDs and all those kind of things.

So, the banks at that point in time, none of the banks were actually doing housing finance and housing finance as a segment started off in 1977 when HDFC was formed. At that time, nobody ever imagined that the housing finance as a product or as a segment would grow to become such a big market and then when CanFin grew was for the next company was Dewan, which was set up in 1985, then GRUH Finance was set up in '86 and then after GRUH Finance, this was set up in '87.

So, basically if you look at it, there were very few companies and banks were not doing any funding for housing finance and obviously, there was a need for housing finance institution because in the abroad if you see, Fannie Mae, Freddie Mac and all were already there and very well established players were there. In fact, they were the refinance. So, there were already other lenders who were doing housing finance.

So, for a country like India, there was no specific institution or segment which was catering. So, that is why it was all set up with a separate this thing and incidentally, the regulator also was set up. A separate regulator to regulate the housing finance companies was set up in the country which was NHB again in 1986. So, therefore, at that time, there was a separate set of regulations. There was an opportunity.

Therefore, all the banks, most of them came up with a separate entity for housing finance. SBI had a separate subsidiary called SBI Housing Finance, sorry, SBI Homes. Canara Bank set up CanFin Homes. Then PNB, Punjab National Bank set up PNB Housing, which was done in '87 or '89. Then LIC, which was a big institution at that point in time, set up LIC Housing Finance. Central Bank set up a Central Bank Housing Finance. Indian Bank set up a Ind Homes, Ind Bank Homes.

So, all the banks set up a separate subsidiary, which I believe was also the need of the hour and also kind of a thing from the government that now that a separate regulator has been formed. So the initial push is how it came in and till some years back, there was also a separate regulator NHB, which was regulating the housing finance. The set of regulations or the guidelines for housing finance companies was different from banks. Subsequently, after SBI came in and all those things and started doing directly the lending and ICICI and everybody, and retail become a flavor of this thing for banks also.

So, today, banks are also doing housing finance and their subsidiaries are also doing, but for a very long period probably from 1986 to almost till 2000 or something or 2003 when ICICI entered the market, I think the banks were not very keen to do housing finance because they were more into working capital and term loans and business loans basically.

Interviewer: Yes, but I mean, this is a very general comment, but traditionally housing loans are low risk and reasonably endless amounts of demand as long as you make sure. I mean, it is the nice well, I would argue...

Interviewee: Good space to be.

Interviewer: It is the nice fat end of the market. We can have a nice time, go home early and not stress out too much.



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- Interviewer 2:** Because everybody got the mortgage--
- Interviewer:** Whereas working capital ends and all that stuff. Yes, you can lend lots, but it goes probably wrong. So, yes, I was just intrigued. Anyway, never mind. Let's get back to you and where we are now, yes.
- Interviewer 2:** So, what is your basically average ticket size? How do you, yes, just walk us through your lending practices.
- Interviewee:** So, our average ticket size is a little below INR 25 lakhs. Incremental lending that we are doing is about INR 25 lakhs. So, that roughly works out to, if you look at the tier 1 towns or even the outskirts today, you would get roughly INR 35 lakhs to INR 40 lakhs is what you would get a good decent small house, a 600 square feet land and you can have a small house. It is very much possible in that kind of a range.
- So, we normally cater to that segment of first time home buyers for whom this is the first house, which again, as you rightly said, is a market where the demand is almost always going to be there. More and more houses are going to come up. More and more people want, families and this will come up. The younger generation will always want to aspire to have a home. So, this is always something which will be there.
- Interviewer 2:** So, INR 25 lakhs is basically the loan value or the value of the house.
- Interviewee:** That's correct. The value of the house would be more or as I said INR 35 lakhs to INR 40 lakhs would be the average ticket size of the properties that we finance, against which we give a loan. So, there is a guideline that we can give in the INR 30 lakh to INR 75 lakh, we can give up to 85% of the property value, we can give as a loan.
- Interviewer:** And when you say property value, right, in the UK, you can get, let's say, 80% value, but that is of the sales price, the property. Now the sales price the property is in what I would describe as a livable, like you can literally buy it, walk in the next day. In Vietnam, they will give you a 70% loan, but it's against the bare shell. So, let's say, you spare in the house in England, the livable price in England is \$100, they will give you \$80 loan. In Vietnam, the bare shell is \$80. So, they will give you, let's say, 60, but your actual value of the house once you live in it is \$100. So, actually, the loan to value, it is actually considerably less.
- Interviewee:** Correct.
- Interviewer:** Where is it in India?
- Interviewee:** So, in our case also, it is basically on the bare shell property only. So, if the...

Interviewer: I wouldn't charge, it would have been by bare shell in Vietnam. No plumbing, no electricity, no toilets.

Interviewee: Oh, no.

Interviewer: I mean, literally, it is bare shell.

Interviewee: No. So, that is not the case. In this case, when we consider the property value, it considers all those kind of things. The only thing is that you still will have to put in the lights, fans. And I mean in a property, it may be there, but you may have to do some kind of thing. You may have a simple kitchen, but you will have to do the internal furniture work of that to make a modular kitchen. You may have to get the beds. So, all those kind of furniture kind of things and all or immovable portion of the house will have to be worked out, but...

Interviewee: Yes, no, but what you can see what I am saying is that in Vietnam, well, if you buy the house for 80, you got to spend another 20. Now in the secondary market, it obviously will be worth 100, not 80. So, the loan is much more, the loan to value ironically is much lower, whereas here it sounds much more like the UK.

Interviewee: Yes, true.

Interviewer: You might change lines here, but here it might be 95 instead of 100, but basically it's...

Interviewee: Correct. That's true. That's true. That is true, but still while the regulatory requirement or this thing where eligibility is up to 85, our is a little below 70%.

Interviewer: So, why do people come to you then?

Interviewee: In the sense that our actual is 77. We are open to give up to 85, but there are people who may put from their own money because the general thing to do to take a liability is also less. You know, as far as possible, they will try to bring their own funds so that their, the liability or the EMI is less.

Interviewer: And what is the tenure?

Interviewee: We give up to 30 years.

Interviewer 2: Will People typically complete their loan earlier or?

Interviewee: Yes. So, actually, while that contracted tenure is up to 30 years and normally customers take it for 15 or 20 years, not many go for 30 years because even now today it is roughly the 40-45 year

olds who come for a loan. So, obviously, they don't have the eligibility to take a 30 year loan because we cap it at the retirement age or little more than that. But the actual tenure for which it stays in our books is a little more than 8 years. So, you can say 8 years is the actual tenure because people tend to prepay the loan. There are some transfer outs, BT outs. Actual average, if you see what the book remains and the loan remains in our book, it is only for 8 years.

Interviewer: Right. And loans are all floating, I presume.

Interviewee: All of them are floating, yes. We have just a very, very small percentage which is fixed, which is, so I would say 99% is floating.

Interviewer: And why, I mean, given that, I don't know, maybe the market, the funding market isn't here, but is there not room to borrow fixed, loan fixed?

Interviewee: There is a, but what happens is in case of a fixed rate loan, the entire risk is on us to manage the interest rate risk that is there. Therefore, obviously, the rate of interest will be a little higher because we are taking the risk. And so here what happens is people are a little more comfortable with the floating rate because the rate of interest is much lower.

The difference between a fixed and a floating rate is almost 1.5% to 2% point because you load the risk also of the interest rate risk also. So, therefore, customers prefer to go for a floating rate. In fact, technically speaking actually from the customer's point of view, a fixed rate is always better because they can schedule their EMI, they can plan their EMI and everything.

Interviewer: Yes, I mean, that was one when I was young and buying houses, I was always interested in the fixed, because I was always very much more of the, I just want to know what the bill is. And if I have to pay once an extra, I don't really care, but in the UK it is very difficult to actually get fixed rates for any decent length of time, which is bizarre given that supposedly a sophisticated financial market.

Interviewee: Here we do have fixed rate. We also offer a fixed rate loan, but customers don't opt for it because they are not ready to pay the 2% because, see, even in a floating rate, what happens is while the rate is floating, the EMI is fixed. So, if the rate is going up, they will extend the tenure keeping the EMI same. If the rate comes down, the tenure will be crashed keeping the EMI same. So, basically, for the customer's point of view, they know what is their outflow, month on month outflow, they are pretty clear about it. And 0.5% point or a 1% point doesn't actually make so much of a difference because over a period of 8 years, in fact, there is an equal amount of times when it goes up, an equal amount of time when it comes down as well.

Interviewer: I mean, you are quite open to people turning around saying I have been paying 4,000 a month, can I increase it to 5,000 a month?

- Interviewee:** We can do that. We are open to that. Customers, in fact, do pay higher, and whenever they pay anything extra, it is straight. We give the credit to the principal. So the loan comes down.
- Interviewer:** Okay. And do people here are endowment mortgages a thing here or is it straight repayment? So, in the UK what used to, they brought these things in endowment mortgages where, so it used to be traditionally, you borrow money, you pay the interest and a percentage of the loan repayment. And then someone said well, hold on a second. Why not instead of doing that, leave the loan repayment as is and we put what would be the loan repayment into the stock market, right?
- And so, basically, with the view that 20 years later the stock market should be up and so you would actually end up with a £100 loan to pay off, but the stock market gone up, so you ended up with a £200 down, so not only did you pay off your loan but you got a check back for £100 which proved to be pretty popular. I was wondering ironically, the UK stock market's kind of gone sideways, but what's going on here?
- Interviewee:** No, so we don't have that. Basically, what you are saying is only interest payment is to be made and no principal payment. You postpone.
- Interviewer:** Yes, but you hold as a bank, you hold security over the equity investment. So, let's say, they send you £100 every month and £80, in the early stages, £80 of that goes to pay the interest, right? £20, the repayment part would go into a stock market fund, and that just continues over the years, and there is a bit of rebalancing where you sit there and go if for some reason stock market's gone down, we might need to add to it, but if the stock market goes up, you don't pay any less. So, ironically, if you have a positive stock market situation, it is much better to you because all of a sudden you have got...
- Interviewee:** No, but we don't have that, this thing to invest in the stock market. We are as a housing finance company, we only, so that kind of a product we don't have. It is purely a EMI concept.
- Interviewer:** Just money, money.
- Interviewee:** Simple EMI concept. You get the loan, pay the EMI. It will be amortized, broken up into interest and principal, and your principal will keep coming down. Initially less and later on more will go towards the principal.
- Interviewer:** Yes, no, I was just wondering if people have done endowments in India. Not really.
- Interviewee:** No, not really. There are other areas where some innovation has happened, but sooner rather than later the regulator has come and kind of put a stop to it. So, it's been very, very controlled in that sense.

Interviewee: What is the average age of someone, you were saying 30s or 40s?

Interviewee: It is right now end of 30s. It is almost close to 40. 35 to 40 is the age in which our customer base is there.

Interviewer 2: Is there a lot of construction going on because I think for a country that is so densely populated, I don't think that a lot of homes construction going on or maybe I just haven't seen enough?

Interviewee: No, in fact, there is a lot of construction which is happening, but what happens is if you are looking at a town...

Interviewer 2: Can I see more luxury and sort of high end, would you say so?

Interviewee: No, that in a way it is correct, like if you divide the country or if you divide the population into those who want affordable home loans of smaller value, one room kitchens or small things like that, there it is purely a supply, I would say, is an issue because whenever the government has provided some incentive, the supply has come into the market, but in that small ticket loans, that is small ticket housing property cases, the number of organized builders and the number of organized construction is quite less. What is there if it's for 35, 40, that is the creep, the mid segment which is there, which is the INR 20 lakh to INR 75 lakh segment where most of the average earning population looks at a house, that is definitely more. But if you are looking at INR 10 lakh houses or a small one room kitchen kind of houses, it is a little less.

Interviewer 2: Is it easy for people to build their own homes because in general I think in Vietnam and a lot of places in Asia, the only reason why people buy apartment is because home are generally becoming more expensive, but is that a case because you now say telling me that there is a not a lot of mid-end construction going on, probably not easy to build home. So, is that a concern for you like...

Interviewee: It is not a concern because actually 65% of our customer base is our people who do their own construction on their own land. So, that is a very large market actually.

Interviewer 2: 65.

Interviewee: Yes, for that is a very large market because many people invest in stages. They first buy small plots of land and then they hold on to the land or they have ancestral land. And subsequently, when they have some accumulated some kind of saving, then they go in for part loan and part saving and then start the construction in stages. So, in fact, yes, there is a lot of construction happening which is done and there is no shortage of any kind of labor or anything of that sort, skilled worker pretty much easily available to do the own construction.



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Interviewee: So, I am not asking you to valuations, whatever the market does, but your valuation, we like growth, but we also like cheap growth rather than expensive growth. And one of the reasons we are here is that your valuation has, I wouldn't say it's collapsed because that would suggest it's gone to nothing, but it hasn't, but I mean, you are a lot less expensive than you used to be.

Interviewee: That is true, that is true.

Interviewer: I don't know whether you say, fair to say your popularity's faded or whatever. Why is that? Because it seems to me that your results in general are reasonably consistent. I mean, I know you cave it, but cave it affects a lot of people, but...

Interviewer 2: What happened that...

Interviewer: Why have people fallen out of love with you?

Interviewee: There is a lot of PE funding, which is coming into the market. And a lot of companies of late have actually, I would say, tried to run very fast. Somehow, we seem to have very short memory where people forget that a lot of people who have run fast have fallen as well. So, over a period, I would say, probably there is a more liking for quick short-term growth rather than invest in it. Because otherwise, if you look at it, and I strongly feel, there is a lack of appreciation for the value of compounding.

So, if you were to actually invest in something and want to have a peace of mind and say that over the 10 years, it will definitely give me a very good growth. But if you want to, again, as you rightly pointed out, if you want to see quarter-on-quarter and every quarter results are going to make a change in your fundamental valuation, then yes, I think we are not the stock to look at. Because when the industry is growing at, it is sometimes surprising that the affordable housing market, the published reports show that the affordable housing market is growing at 8% and 9%. But the affordable housing finance company's disbursements and growth is at 30%. So, obviously something is not making sense.

Interviewer: Yes. And what is private equity thinking that it can achieve really? I mean, I don't want to say that there shouldn't be any innovation in finance, but generally every time there is a wave of innovation, it crashes on the shore rather than carrying on.

Interviewee: See, I have been in this industry for more than 25 years. And there have been companies who have always been the front runners and who have had quick growth and all, but there are very few who actually on a very long-term basis have even stood the test of time. Way back in the early 2000s and all, Dewan and a couple of others were very much in the flavor, but the company is no more there. There were a few other companies also, which in between have always grown faster. HDFC was never the company, which was the top of the chart in terms of growth. The



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only thing was over a period of 30, 40 years, it had a very consistent 18% to 20% growth. Good markets, 20%. Very poor markets, 18%. So, eventually it is, you know, those are the stories that have survived.

Interviewer 2: Yes, yes, yes. I know, that's scary.

Interviewer: Yes, no, I mean, I always remember, in 1996, when I turned up in Hong Kong and it was something of a boom going on and my boss at the time turned around and said, I don't know, Rob, you'll remember is, really successful property developers have leverage of around 30%. And the reason is, they know they can juice their growth by having 70%, but they have also been around long enough to see a lot of people go to 70% and blow up under the cycle terms. So, that sounds good, guys. Keep it at 30%, because then money's available when they need it, and they are not desperate, they are never desperate. And banking is kind of the same, really. It is the other side of that coin of staying in existence gives you a lot. You have got time to make it all happen.

Interviewee: Absolutely.

Interviewer: So, as we look, one of the things we have been struggling with, and I say, we are in and out of India a lot at the moment, because we are trying to work our way through the companies, is where is the Indian economy? Because on the one hand, you have got tariffs, Indians, visas, you talked about **(Inaudible)** 35:38.

I find it ironic in India that everybody wants to complain about Trump imposing tariffs, yet India imposes more tariffs than anyone else, and probably in their world, and equally, they complain about stuff coming in from China. But, not you, because you have deflated, but a lot of people, there was this sort of post-COVID, valuations went to the moon, they have come back, and then they have gone back to the moon again, and a lot of this sort of is contingent, I think, on the economy rolling along.

I realize you can only really talk about what you are seeing, but we were talking to somebody the other day, and they were like, oh, it's been a great monsoon, revenue's going to pick up, the festival season's going to be fantastic. We were speaking to a very well-known, super-large consumer brand doing watches and jewelry and stuff, and they are going, well, actually, the problem is, gold's up a lot, and so, people have only got \$X hundred to spend, and they used to buy some cufflinks, because you could get it for a \$100, now you can only get one cufflink, because it's doubled in price, and they don't want to spend anymore. So, what are you seeing, what do you think of the economy at the moment?

Interviewee: See, there will be some sectors here and there, which will go up and down, but otherwise, I think there is no issue with the economy, because one, there is a huge internal consumption itself in the country. I think the internal demand itself is so good.

Second thing is, if you just look at the kind of two numbers particularly, if you just look at it, one is the GST numbers, okay, and second is the amount of investment that is going into the SIPs month-on-month, systematic investment plans, I think, good or bad times, the numbers have just not come down, which clearly shows that the income levels have just held up, come what may.

Interviewer 2: You mean the GST, the government's revenue or...

Interviewee: That's where the GST or the government's revenue from the GST, okay, if the government had not been earning well, I mean, of course, there could have been some other reason also, but otherwise, if you look at the GST numbers, they have consistently been doing, going up and up and up, and this, the GST has come at least for quite some time now, three, five years, seven years. Okay, it's been there for seven years, and the numbers have only been going up, clearly showing that the consumption has been, spending has been improving.

Second thing is, in spite, that is on the one side, other side, you have the SIPs, where people are putting their monthly savings and that numbers also has been just going up. So today, if you look at it, that while there is a FII pressure earlier, it was all FII income, which was driving the market, today, even when the FIIs pull out, the domestic investors are already, are still there completely supporting. So the stock markets haven't kind of had so much of an impact, even in those times.

Interviewer: Yes, okay, but in what you are doing, you said the demand is still solid?

Interviewee: Absolutely, absolutely. Like, if you look at it, this is a segment where it is a first time homebuyer. So, nuclearization of family, urbanization, and as well as the fact that sentimentally, of course, the house is the best thing, which completely changes the, you know, gives the solid, this thing to the family, support to the family. It can change the, it can improve the lifestyle. It can improve the entire outlook to the life. So, everybody wants to have a house.

So, in terms of the demand, I don't think, this same question I have been asked from the last 10, 15 years, everybody keeps asking, how long is the runway? Even today, I say that the runway is at least another 10 years, easily. And probably after 10 years, if you ask me again, my answer would be for another 10 years.

Interviewer: Yes, if I look at the UK, for example, where everyone said when I was not a child, but well actually I did when I was a child, but even when I sort of started working. I think people totally underestimate how powerful the nuclearization of the family is. And I think in India you are, I

don't know, I am going to guess, you are still a four person home. You are probably in a six person home.

Interviewee: Six person home.

Interviewer: Yes.

Interviewee: For many it is a six person home.

Interviewee: Yes. So, for you to get down to what I'd describe as a one and a half person home, there is a hell of a lot of houses still to be bought.

Interviewer 2: Yes.

Interviewee: And obviously in the UK there was migrations as well, So there is population which helps. So I mean, it becomes the same thing there. Why, I mean, just as I look at your stocks or going back to that, I mean, if I look in '20, if I look in '22 and if I look in '24, there has been times when your stocks have dropped close to 40% in a year. Now I am slightly sitting there going, well, why would that happen? Because if I say you are a boring business, I don't mean that in a bad way. That's what, you know, I would love to see a bank like that where they just grow a little bit, make decent returns. I would have seen you would be the least volatile stock in the market, but...

Interviewee: No, in '22, I think there would have been a big drop. I think that might have come. '19, I wouldn't say it's a drop. It is because we had a stock split. But then the market capitalization would not have changed. In fact, it went up. So '19 is not because of that. Sorry, '17 is not because of that. '22 and '24 probably, '22 and '23 is the period where there would have been a quite a bit of volatility. Actually, in '22, there was one fraud which was reported. And it was actually blown out of proportion to be very frank because once it was reported that the market reacted very aggressively. But at the end of the day, when all it came out was there were 38, sorry, 58 loan accounts in one particular branch where the customers had submitted false documents. That was the only thing. 58 individual customers who had given, but for that the market reacted in a very big manner and eventually nothing much turned out of it. Incidentally, out of that 58 loans, as of today, only one loan is live.

Male Speaker: One loan is live.

Interviewee: Only one loan is live. The other 57 loan accounts eventually got prepaid and closed also.

Interviewer: Yes. But I suppose the problem is the market because of a couple of issues that some of the other banks did not fly to.



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Interviewee: So, the moment you, you know, the word fraud, suddenly it becomes too, this thing. Again, there was another incident in '23 where again one thing was reported, but it didn't even affect the profitability or anything. Because yes, there was an impact, but FY '23 or FY '24, in fact, the profit was still much higher than the FY '23 numbers. So, there was some impact, but nothing much, otherwise, in terms of this. However, we did learn from those mistakes and the company has actually in the last two years spent a lot of, put in a lot of effort in improving the internal controls.

There was also an issue that the systems or IT systems were quite outdated or they were implemented in 2011 and since then there was upgrades had not happened. Somewhere in 2019 prior to COVID, the company had considered an upgrade, but then COVID came 2020. So, it was kind of shelved. So, therefore, it became a little overdue. And now, in fact, that has also been implemented. So, basically, I think these were the two hiccups where basically some...

Interviewer: So, who do you use for your software?

Interviewee: Sorry?

Interviewer: Who do you use for your IT?

Interviewee: So, for IT, now we have already appointed IBM as one of our partners to implement a complete new system for us. They are already in progress. The implementation is in progress. And in November, that is, Q3 is the due date for implementation of this package. That is, in Q3 next quarter, we will be implementing it. Work on the same is currently going on as per schedule. So, we are expecting to implement the new module, which will include new LOS, LMS, HRMS package, document management system, accounting GL package and all. Everything will be done, including some upgrades in terms of our security and also in terms of the infrastructure.

Interviewer: And again, where do your loan leads come from?

Interviewee: So, we have two main sources. Earlier, most of our dependence was on our DSAs. We have the direct sales sourcing agents or direct selling agents. They were the major source for our lead generation.

Interviewer: And they are your employees or they are...

Interviewee: No, they are not. We put them on, they are empanelled with us and they shared the leads. Credit appraisal, legal appraisal, technical is done in-house. But then, at least the leads are shared by them. That is there. And now, we have also started our own internal sales team. So, we have basically that and now we have also going to start our digital onboarding. Because this new package, once it's implemented, we will also be able to do a lot of digital onboarding.

Interviewer: And with the new package, I was noticing outside there were sort of folders with papers in. I wasn't looking at the folders. But how far are you? I mean, will the new package take everything sort of cloud and will paper disappear? Or do you still have a lot of sort of paper happening?

Interviewee: So, paper won't disappear. Because obviously, we have to get the original documents of the customers, you have to do all those things. But in terms of capability, even as we speak, today we are in a position where everything can be done without paper. We have the scanned copy of the income documents, like Aadhaar, PAN, permanent account number or your salary slips, ITRs, everything. In fact, ITR and bank statement, we can directly pull from the bank or from the income tax portal and it can be done. So, all those things are possible.

The last piece, which was a digital signature without actually having to do 50 signatures, that also is getting implemented. So, basically, we can do without that kind of a thing. However, the entire documentation of the property and all those things, LSR and everything is purely paper dependent.

Interviewer: And we were talking to somebody who provides a lot of contract staffing, and she was talking about how, I don't know how to get this right, the formalization of employment or the informalization of employment. And the government, okay, still talking about it, but they actually want to move everybody away from, shall we say, the black economy to actually having a job card and electronic tax and all the rest of it. Even when that comes in, will that make your life easier, or will it make no difference?

Interviewee: It will be much easier because today what is happening as a conservative lender, we have a huge economy where customers are not having documented income proof. And today we are not able to service them, and they are not our customers. Obviously, if all those things gets documented and they start having like, at least in terms of bank, now the banking system has evolved so much and hardly there is anybody who doesn't have a bank account. Because that Jan Dhan Yojana, which was eventually launched many years back, that also has brought in almost the entire segment into the banking system. And now we have account aggregator. We can straight pull the bank statement from the respective bank through just a OTP verification, authorization. We can straight do it.

So these kinds of things, if they happen, definitely, our segment today, probably I would say about, only about 30% of the taxpaying population or salaried segment population is what we are able to cater to. The remaining 70% of the population can also come into the formal segment. Then definitely it will be much easier for us. And it will be much easier for them also because today we are able to offer a much better rate because our cost of borrowing is the lowest. And obviously, therefore, if they are there, they would definitely would be more willing to come to us. But since that 70% of the market we are not able to even cater to, therefore it is completely out of bounds for us.

Interviewer: So, say, for example, in Hong Kong and the UK, you were banking with HSBC, they offered you a mortgage or they didn't offer you a mortgage and you have to, how do they know who my mortgage is with, I think it was with OCBC or something. I could actually move my current account there and get my salary paid in, which at some point to them makes life easier. Can you receive salaries here or is it literally the only thing you can do is I have no money, and they have to send the, move and join?

Interviewee: See, we don't have to, we are not a bank, so we cannot therefore have a salary account or something with us. But in fact, here in India, we have this NPCI, which is the National Payments Corporation of India. Now, the NPCI is having this facility called NACH, N-A-C-H, where from any bank, I can directly pull the money on for my monthly installments. So they don't need to necessarily have an account with me to, for me to be able to pull money from their account.

Interviewer: So, just so that I understand how it works, so I work for Tata Motors. The money comes and my bank is with HDFC, but so when it leaves Tata Motors, does it go to HDFC and then to you?

Interviewee: Monthly salary goes to HDFC. When we give a loan, we do a NACH, we get the NACH mandate executed. So that's also e-NACH, we have a e-NACH facility where they don't have to do anything, but they just have to do this thing. And through the OTP, we get the confirmation from the bank. And the e-NACH is registered. Once it is registered, they give us a date on 5th, 10th, 15th or 20th. And on that day, I present this entire list to NPCI, and I will get the credit through HDFC to my account.

Interviewer: So, it is a direct debit essentially on HDFC.

Interviewee: Yes.

Interviewer: So the NACH doesn't get in between Tata and HDFC.

Interviewee: No, I will straight take it from HDFC to my agency straight.

Interviewer: So, it is a sort of centralization of direct debit.

Interviewee: Yes. So today, I have about 2.7 lakh loan accounts and 2.4 lakh customers because some have more loans. Almost 90% of my loans are through NACH. So, I don't have to do any follow-up or any checks or anything of that sort. I just get the mandate on the date in which the customer has consented to give the NACH. The NACH Excel sheet gets straight presented to NPCI and the money comes to us the next day.

Interviewer: And one thing we haven't talked about, hopefully it is not too much wrong, but so, I will lose my job. I can't afford to pay you. What is the process then, both from your sort of registering the bad debt and B, taking hold of my house if you have to?

Interviewee: Yes. So that is a SARFAESI Act. Securitization and enforcement of security interest. The SARFAESI, S-A-R-F-A-E-S-I. Under that act, there is a process laid down. We can give the notice. The requirement is if the account becomes an NPA, a non-performing asset. Then I can issue him the notice. I have to give him a 60 days' time period for him to either regularize the account or I can proceed for taking the possession.

Interviewer: And that's basically, for me, just read the acts, is it clear, this is how it happens. Because one of the problems in India, traditionally, I presume this changed that, was that going to court could take sort of three lifetimes, never mind doing whatever. So, this circumvents all that.

Interviewee: Absolutely. Absolutely. If I am a secured lender, the only requirement is I need to, there are certain requirements that it has to be minimum 1 lakh, it has to be outstanding, it has to be more. So, only thing is if I have registered the property and it is a secured lender and I have uploaded this detail with CERSAI, which is a normal. As soon as we give a loan, we upload and create a charge in CERSAI. That is the only requirement. I can go and enforce the security and get it done.

Interviewer: But from your accounting perspective, so when do I get registered? How is the process for me to getting registered in NPA in terms of, is it 90 day, 180 days?

Interviewee: It is 90 days.

Interviewer: 90 days.

Interviewee: Yes.

Interviewer: So my house was 100, sorry, my house was 120, I like simple numbers, my loan was 100. What becomes the NPA, the 100 or the outstanding, the bit that hasn't been paid or what actually?

Interviewee: So, the 100 is the loan given. Say the customer has paid for five years and then he becomes an NPA. So, the 100 would have come to say 85. So, 85 is what will become the NPA. But when I go to sell the property, I have to take a valuation, and I have to then accordingly based on the valuation. So, if the 120 has become 140, I will advertise and try to sell it at 140, but I can adjust only 85 plus the unpaid interest. The rest I have to give it back to the customer.

Interviewer: So, it is a reasonably straight and fair process.



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Interviewee: Absolutely.

Interviewer: I mean, in France, they will dump it on the market to their mates, and you end up with a, yes, you never get a check from the bank basically.

Interviewee: No, no, in our case, there are many cases where the excess amount we have given back to the refunded to the customer. They said because this thing is very clear that under the SARFAESI Act, we only become, we only get the quasi-judicial powers and whatever is our outstanding, only to that extent we can retain. The balance has to be given back to the customer.

Interviewer 2: In terms of provisioning, how do you approach that?

Interviewee: We are having Ind AS. So, we have the ECL guidelines which we follow. And so, we have the five-year track record, we have to look at it. Based on that, the probability of default and the loss given default, we have to calculate and based on that, we are making the provisioning.

Interviewer 2: So, if somebody is 15 days late, do you have to probably start to provisioning for that?

Interviewee: Yes, yes. In the sense that, based on this movement of funds, what is the, you know, as I said, the probability of default is calculated. Like if out of 80 customers who in the past have moved to 15-day default, out of that 80, if, say, one has gone into NPA eventually, then whatever is the current track record number of people who are in 15-day default, we will calculate one out divided by 80 of that number. And then, for that will be is the probability of default from this portfolio. Same way for every bucket. And it is calculated. So, that is how it is there, the same Ind AS.

Interviewer: And are people equally honest across India or do you find that, and I am not just going to pull cities out, but people in Delhi are always defaulting and Mumbai is always honest, and Pune is sort of halfway between. Is there any difference or is it?

Interviewee: I don't think so. Yes, there are some pockets where the defaults are a little higher. There is generally, you know, there are known, it's known in the market as to which are the kind of negative areas. So, there are companies which clearly demarket these kind of negative areas and avoid those areas and stuff like that. But, by and large, yes, it's not, there are fewer pockets which are there, which you may want to avoid. That's it.

Interviewer: I am not sure I have any more questions.

Interviewer 2: Yes. We don't.



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Interviewer: No, I mean, look, I think that's been a fantastic introduction. As I say, we are not at the beginning of our journey, but we are early in our journey. We are narrowing people down. You may not feel this way, but from my perspective, it is nice to see a sensible company and a reasonable valuation that's not sort of off the charts. We saw someone the other day and I like, I think it is a wonderful company, but at 5x revenue, I don't know how anyone can justify that. But so, thank you. It's been really, really interesting.

Interviewee: It is a pleasure from our end also.