"Can Fin Homes Limited Q4 FY '24 Earnings Conference Call"

April 30, 2024

MANAGEMENT: **MR. SURESH IYER – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CAN FIN HOMES LIMITED**
MR. PRAKASH SHANBHOGUE – DEPUTY GENERAL MANAGER – CAN FIN HOMES LIMITED
MR. APURAV AGARWAL – CHIEF FINANCIAL OFFICER – CAN FIN HOMES LIMITED
MR. VIKRAM SAHA - DEPUTY MANAGING DIRECTOR – – CAN FIN HOMES LIMITED
MR. PRASHANTH JOISHY – DEPUTY GENERAL MANAGER - CAN FIN HOMES LIMITED

MODERATOR: **MR. NIDESH JAIN – INVESTEC CAPITAL SERVICES**

Moderator: Ladies and gentlemen, good day, and welcome to Can Fin Homes Q4 FY '24 Earnings Conference Call hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Uday Pai from Investec Capital Services. Thank you, and over to you, sir.

Uday Pai: Thank you. Good afternoon, everyone. Welcome to the Q4 FY '24 Earnings Conference Call of Can Fin Limited to discuss the financial performance of Can Fin Homes. And to address your queries, we have with us Mr. Suresh Iyer, MD and CEO; Mr. Vikram Saha, Deputy MD; Shri Prakash, Deputy General Manager; Shri Prashanth Joishy, Deputy General Manager; and Shri Apurav Agarwal, CFO. I would now like to hand over the call to Mr. Suresh Iyer for his opening comments. Over to you, sir. .

Suresh Iyer: Good afternoon, everyone, and welcome to this earnings call for Q4 performance of Can Fin Homes Limited. As you all know, we declared our results yesterday. And the Q4 results, the main highlight is that in terms of disbursement, wherein we had seen a fall in Q2 and Q3. In Q4, we have been able to pull back and that growth in disbursements compared to Q3 has been up by 23%, and we have been able to clock INR2,300 crores plus disbursement. That's almost an average of INR750 crores plus run rate per month while it is lower than what it was for the previous year, but we have still come back in terms of disbursement.

And it gives us the confidence that going forward, we should be able to now focus on business and push the AUM and disbursements and AUM. The second highlight of the performance is that in terms of our recovery compared to the performance of Q3, we have the gross NPA in absolute value as well as in percentage terms has come down compared to the 0.9% gross NPA as at the end of Q3. We have ended the Q4 at 0.82% and in terms of the non-restructured portfolio, our gross NPA percentage stands at 0.55%, which is the same as what it was in the previous year. And whatever therefore, the increase in the NPA that is there is mainly on account of the restructured book.

Even in terms of the restructured book, we would like to highlight that the gross NPA has reduced compared to the Q3 level. And at the end of Q3, the gross NPA in the restructured book was INR96 crores, which has come down to INR92 crores. And therefore, in absolute value, it gives us confidence that there is no further slippage expected other than the normal course that would be there in terms of the restructured book also. And it's now been 5 months since the entire book has come out of restructuring because the last pool also came out in November 2023.

So therefore, it gives us confidence that no further slippage is expected even in the restructured book. However, we have continued to carry the management overlay of INR34 crores, which we had created in March '23, INR17 crores in March '23 and INR17 crores in September '23.

So that management overlay is continuing. Additionally, of course, we have also carried the provision of INR58 crores in respect of the COVID restructuring guidelines where we are required to carry 10% of the portfolio, which was offered restructuring. However, in that, we have -- there is a INR1 crore reduction in the provisioning in the COVID portfolio because of the portfolio, which has been closed or has been prepaid by the customer during the period. So in respect of those accounts, we have withdrawn the provision, which is including INR1 crore. Other than that, in terms of the profitability, the company has had -- been able to maintain a healthy spread of 2.67% compared to 2.66% as the end of Q3.

During the entire year, we've had a continuous improvement in the spread as well as the NIM because of the portfolio which came out where the repricing was impacted during the year. So the entire portfolio, which have got repriced after January and thereafter from January, we have also moved to a quarterly reset. So going forward, whenever there is an increase or decrease in the borrowing cost, the same will be passed on to the customer. So therefore, that will bring in a more stronger ALM position. In terms of the financial ratio, there has been an improvement in almost all the ratios, even on terms of our debt equity ratio. It has improved further from the previous year.

So this is broadly the highlight of the performance. If I have to just mention to you a couple of the ratios in terms of the ROA, it stands at 2.28%. In terms of the ROE, it is 17.28%. The spread, as I mentioned earlier, is 2.67%. And the debt equity ratio is 7.34%, down from 7.97%. So these are broadly the highlights of the performance of the year. Going forward, in terms of the -- where we -- how we look at the coming year, FY '25, we would like to push on disbursements since we have already covered in terms of the various attempts that we have made and efforts that we have made in terms of strengthening the process in terms of the policies and processes.

So a lot of it we have already achieved, which is also made available in the presentation. So going forward, we would like to push on disbursements, and we are targeting around 15% growth in terms of the AUM for FY '25. Thank you. Over to you.

Moderator: Yes, sir. Should we begin the Q&A session? .

Suresh Iyer: I think anything else we can take up in the Q&A session.

Moderator: Thank you very much. The first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: So I have a few questions first. So basically, my question was on yield and cost. Your yields have remained pretty steady. And so has your cost of funds? How do you see it going ahead? And also, if you could talk us through competitive intensity in your segment of borrowers and who are the 2 to 3 most aggressive competitors if you could throw any color on that? That's my first question. .

Suresh Iyer: See, in terms of the yield and cost, actually, our cost has gone up from 7.35% to 7.4% during the quarter because obviously, in Q4, there was a liquidity was also tight. And therefore, the funds that we have raised in Q4 have obviously come at a slightly higher rate. But at the same time, it has been offset by the increase in the yield. So on actually both that we have seen 5 basis points and 6 basis points increase. That's why our spread overall has remained the same as around 2.6 slightly moved to 2.67.

Going forward, in terms of the spread, obviously, we will have a -- that could be a rate reduction in this financial year, which we are hoping so if that comes also, but it does not have much of an impact because we are also going to pass on the rate to our customers. And if you recall it, in January, had informed that we have moved from an annual reset to a quarterly reset, so in terms of the reselling for our -- on the asset side, also, it will happen on a quarterly basis. So that is in terms of the yield and cost. However, if you were to ask for our guidance, you would probably say that in terms of the spread, we would look at about 2.5% and 3.5% NIM is what we would be targeting.

Now second question or second part of your question regarding the competitive landscape. Well, in our scope, that is in the INR20 to INR75 lakh segment, where almost 50% to 60% of our business is happening, in that segment, of course, there are -- the competitors are there, but the main ones I would say are LIC, LIC Housing, PNB Housing and Baja Housing. These are the 3 main ones. Of course, banks are always there. But the main ones who from -- which I can say is from the point of view that our loans, if you have to receive from who are the competitors, who are picking up our loans, then it would be these 3. So this is what it is.

As far as our competitiveness in this segment is concerned, we are also offering attractive rate from 8.95% for customers who are in the 700-plus CIBIL score segment. So in that segment, therefore, we are quite competitive. So getting this thing, it would not be that -- it will be difficult or anybody's pricing, undercutting or anything of that sort. Of course, there are different players at different levels. And I think at this level also, we'll be able to get a very good quality of customers in the areas that we are operating in.

Mahrukh Adajania: Your competitors in the 700-plus segment, are they lending at 8.95 or lower?

Suresh Iyer: Well, actually, there are different segments. I mean, different, different players, like all the banks are also operating in this segment. And nowadays, in fact, there are other players, smaller players who are charging at a high rate also who are also having a very good customer scores in their portfolio.

So basically, it is not only the rate of interest or CIBIL: score it matters. The CIBIL score overall, we have observed that in the industry has been moving up because people or customers have become a little more -- they have become a little more understanding and aware of their importance of CIBIL scores. So that is one thing because the scores are going up. And two, in terms of the competition, as I said, there are other players who are charging much higher than us also who have more than 50% of the portfolio with INR700-plus crores.

Moderator: The next question is from the line of Aditi Loharuka from CD Equisearch Pvt. Ltd. Please go ahead.

Aditi Loharuka: Sir, my question to you is like, what sort of specialization do you think CanFin possesses, which enables us to compete effectively with other companies in the housing market segment?

Suresh Iyer: See, if you were to ask what is our USP, one is of course, we are a very experienced staff It's a 36-year-old company. The stability of staff is also very good. So when it comes to explaining to the customers or understanding the exact need of the customers, I think our staff is that way well equipped and well experienced.

Second thing I would say is that, we also have one more aspect that we have decentralized sanctioning. Of course, we do have a review and checking mechanism where all the loan sanctioned at the branches are checked by the credit review monitoring department. But at least the local sanctioning is there. So the branch manager at the branch at the local location is able to give a fair idea to the customer as to whether the loan is possible or not and to how much roughly the loan eligibility works out. So this gives, you know, immediate comfort to the customer, which I believe is also one of our very strong USPs.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: So thank you and good afternoon to you all, so just wanted to understand that this has indeed been a good quarter. But if I look at the disbursements that we've been doing quarterly, very clearly, right, I mean, there is still a YoY growth that we see. So just trying to understand are there products, customers that we were doing maybe one year back that we are not doing now, right, is something I wanted to understand? That is there room for further acceleration in the disbursement momentum? Or, I mean, have we stopped doing certain product segments, which led to much stronger disbursement momentum in the last fiscal year?

And so just a related question, I mean, is it then kind of safe to assume now that whatever challenges we had seen after the Ambala fraud, none of those things, none of the process level changes, none of the system technology changes that we were doing are now impacting the business momentum?

Suresh Iyer: First thing on the disbursement side. See, we -- I wouldn't say that there are anything that we have any products or any things that we have withdrawn from the market, except that a couple of years back, we had a very small portfolio of construction panels, which we are not doing. So we are not purely focusing on retail.

The only other thing that I would see is that in terms of the processes and in terms of some of the policy -- small policy changes, we have tried to strengthen and streamline the processes and strengthen the policy matters. Just one case in point is like earlier, our CIBIL score floor rate was – floor score was 600, which is now up to 650.

So this is more in the view of strengthening the quality of the portfolio. So that is, I think, the only kind of small changes we have done. Otherwise, we are not actually missing out on any market. Generally, but if you ask me, yes, our focus on the LAP portfolio or in terms of our top of loans or BT in as a strategy is something which we have not aggressively explored. So in terms of that, there is always a scope that if we can -- we can look at these two things to slightly get a little more aggressive and push for disbursement.

However, the disbursement, whatever the slowdown that we have seen in the second and third quarter is more because of the process changes that we have introduced. And there, I would definitely say that we are much more comfortable and confident that now we are in a much better position to monitor and stream and look at the quality of the portfolio resourced. So that way, we have strengthened the processes, and we are quite confident now.

The second thing is as to whether it will impact our business going forward, I would say not much because, as I said, we had done it in the beginning of the second or the third quarter. So those kind of changes have now kind of become part of the system, and now everybody is used to it. Like the centralized disbursement when it was introduced in Q3 -- beginning of Q3. At that time, it did impact in the month of October in a big way. But now it is the streamlined the entire process that stream and considerably.

So going forward, this may not have much of an impact. However, I would say that we are still continuing with our process of improvement. One of the things, of course, would be IT, which is there. We have introduced some IT-related modifications and improvements in our process. And those things are kind of on a continuing basis. So those things will continue.

Abhijit Tibrewal: So then maybe because you spoke of IT investments on a continuing basis. This quarter, there was a little elevated other opex that you report. So I mean, are there any one-offs there? Or have we kind of front-loaded some of the investments that we talked about in the past? Because I remember in the recent past, you have been guiding at slightly higher opex trajectory whether we look at cost to income or fixed assets?

Suresh Iyer: And then that is correct. In fact, we have, in this quarter, had about additional INR5 crores expenses approximately because of the IT intervention of it, some of it is because of upgradation it is an ongoing basis, so about INR3 crores on a quarter kind of will get ahead on an ongoing basis because we have this aberration of our software, which we embarked upon.

The second thing is the INR2-odd crores we have spent on some of the changes, and we are more in the nature of a onetime cost, which will not be repeated. So that's the kind of thing. However, this is only part of the improvement, as I mentioned, that the IT changes is an ongoing kind of a thing. And therefore, this is just part of the total overall expenditures that we were anticipating and which has not happened entirely in this financial year.

That's why you would say that we had in the beginning, indicated that probably our cost income ratio go up to about 18%, but it has not gone up that much because some of the cases have kind of been postponed or gone a little further.

Abhijit Tibrewal: So sir, I mean then for FY '25, that guidance of cost income ratio of 18% then stays?

Suresh Iyer: Yes, yes. You can say that because some of the costs will still as we start investing further and we introduced further IT changes. Some of the costs will further happen. So we will continue with the 18% guidance for cost-to-income ratio in FY '25.

Abhijit Tibrewal: And sir, moving the interest of time, just one last question that I had was -- I mean, the asset quality has been behaving well, looks like and what you said in your opening remarks, the pain from the restructured pool is now comfortably behind.

So I mean, have you had some conversations with the regulator or the auditor in terms of how long we want to hold this management overlay of INR34 crores or for that matter the standard provisions in the COVID portfolio that you are holding today?

Suresh Iyer: Okay, two parts to it. One is this management overlay of INR34 crores, I -- that is not a regulatory requirement or anything. It is more from the management's point of view, and we have taken the conservative step. And if you would recollect, at the end of Q2, we had said that we are making this additional INR17 crores, which we would like to make for the likely provisions that could come in the balanced restructured book. And it came in all those similar lines only, but then we have decided to not to write back and continue a conservative approach and continue with the management overlay.

So that is as regards the management overlay, it's just a conservative approach, which you would like to continue. The second part about your COVID restructuring provisioning, that is a statutory requirement. And as long as the portfolio continues, we'll have to do it subject to, I mean, the portfolio remaining above 80%. So in the sense that if the restructured pool or a particular individual loan was given, say, INR10 lakh was restructured.

Then if it comes below INR8 lakhs , then we can withdraw 50% of that particular provision. So that is something which is more guided by the regulatory requirement. Having said that, we have not withdrawn the cases -- the provision, and we have not reduced it to 50% for those cases where it has gone below 80%. We have continued to grow the entire 100%.

But only for those cases where the loans have been closed, we have withdrawn the provision from that original INR68 crores, which in Q3, we withdrew INR10 crores because of the closed loans. And in Q4, we have further reduced by another INR1 crore because of some more closures that have happened in Q4.

Moderator: The next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Congratulations on strong result. Two questions. Sir, firstly, what is the disbursement target and VP outrate assumed in your AUM forecast of 15% for FY '25?

Suresh Iyer: See, in terms of the disbursement, we think about INR11,000 crores kind of a disbursement or thereabout should help us achieve a 15% growth in AUM and current year, if you see, we have about INR4,000 crores to INR4,800 crores, which is about INR400 crores which is a monthly BT out plus amortization plus part payments. So the loan closures happen because of 3 parts. So all 3 put together is about INR400 crores on an average per month. So going forward, we think -- we believe that looking to the slight increase in the book. Next year, it should be around INR450 crores per month. So that would be the kind of average run rate of BT out plus prepayment plus lower amortization.

Rajiv Mehta: How should we look at this 15% growth guidance? Is it just for FY '25 because we're still adjusting to the new processes and that we are going to have some take system changes in FY '25 as well as we are developing the new housing channel? And then FY going into FY '26, would our aspirations of growth change?

Suresh Iyer: See, if you look at our disbursement target of about INR10,500 crores, INR11,000 crores also, if I have to look at it, be INR10,500 crores would be about 30% growth in disbursement from the current year, okay? But generally, the AUM on the outstanding portfolio, there is always a lag impact, and it always grows at a slightly gradual pace. So even with the 30% growth in disbursement from the current year, we will be able to achieve about 15% growth in AUM. But as we sustain the disbursement growth in the -- in the following years also, this 15% will go up to 18% and 20%.

Rajiv Mehta: Got it. And just one clarification. Does our reported NIM include fee income as well? .

Suresh Iyer: Yes, it does. NIM includes other incomes.

Moderator: The next question is from the line of Devansh Nigotia from Safe Enterprise.

Devansh Nigotia: Sir, can you -- I mean, elaborate a bit more on from the time you joined our acquisition advances growth of 20%, which we have kind of moderated to 15%.so is it because of the changes in the IT system and you know, the [inaudibl] incident why we moderated in terms of growth or I mean, can you share the perspective over here?

Suresh Iyer: Well, in the first quarter yes, thank you, Devansh the first quarter, actually, we did see a good, healthy growth in the last year. But in July, we had this incident because of which we had to undertake a bit of strengthening of the processes and streamlining and a lot of fresh, you know processes or controls are also introduced. We centralized the disbursement, we centralize the reconciliation. We also introduced a credit review monitoring department, which reviews as a double check on all the loans. And we also introduced some other checks in terms of IT processes and all. So basically, this slowdown or our pullback happened mainly because of our change processes and the strengthening that we did.

And I think that was most necessary at that time also because we need to have the confidence you know such instance does not happen again. So basically, it was because of that. In terms of the market, if I understand it is where you are coming from. In terms of the market, I don't think that is a slowdown or there is anything where we need to be worried about, except that probably in the affordable segment, I personally believe that would -- there is a little bit of a slowdown.

But of course, we decided to move a little out of it or rather move a little in the higher segment. So basically, in the INR20 lakh to INR75 lakh segment because we believe that probably in the sub INR20 lakh segment, there could be probably some slowdown or some issues in terms of the supply since the CLSS has been withdrawn.

So having other lines in the segment that we are talking about 20 lakhs to 75 lakhs, there is a very robust growth, and we believe this will continue for a few more years, looking to the number of launches, project launches across cities that we are witnessing.

Devansh Nigotia: What would change, – what would give us the confidence to change the trajectory of advancing those from 15% to let's say, 18%, 20%, what's -- what are the things you're looking for internally in the company that you want -- that will help to incur the disbursement significantly from here on? .

Suresh Iyer: See, first of all, we have already undertaken some changes in the IT. And I believe that is going to be one major thing which will determine the kind of growth that we will be able to deliver. And we have already undertaken some -- of the changes in terms of the IT processes, IT systems. And this is, as I said earlier also is something which will continue for one more year or maybe 1.5 years also.

And that is what will give us some strength in terms of we will be able to do a better digital onboarding. We'll be able to have some more processes, which can be end of done digitally like we introduced this time the verification of PAN , verification of Aadhaar and all those things. So all those kind of things, we're also bringing some productivity improvement. So basically, it is IT -- is a major thing which we believe can help us further bring in the growth. That is one thing, not to mention that even without that, looking to the market, we are confident that we should even in the current year, have a much better disbursement performance.

Moderator: The next question is from the line of Raghav Garg from Ambit Capital. .

Raghav Garg: Sir, sometime back, I think a couple of quarters ago, you had highlighted because of the developer channel that you were exploring and that you had gotten into your branch efficiency would improve by 10%, 15%. Where are we on that? And how long will it take you to achieve that 10%, 15% efficiency improvement on a per branch basis because I believe that is one lever or one low-hanging fruit for you to possibly deliver a better AUM growth over the next couple of years?

Suresh Iyer: No, you're right, Raghav, in fact, we have mentioned about this APF, which we are targeting and which we are looking at. So we have initiated that. But frankly speaking, it is still not given us the traction that we were looking for. It has been a little slow development on that side. And this year, we are definitely looking at pushing that very aggressively. Last year, we could not get much out of it. Although you know some of our interactions with the builders, some of our visits and all has helped us in getting some bit of inquiries and leads and conversions because of which if you see our 30 lakh plus segment, particularly, we have seen a good growth in terms of the disbursement incremental disbursement. However, from our point of view, we are not very satisfied with what we have achieved over there. Still a lot can be done over there.

Raghav Garg: And if you were to highlight what are the challenges that you are facing? Or what is it that -- what are the reasons why you're not able to do it? .

Suresh Iyer: Well, actually, there are two things I would say. One, mainly is that it was more of a DSA-driven channel that we were having. So first is, we had to also get the voice on the ground to do the marketing, plus to have a builder dials. In fact, we -- I would say we were probably not completely ready with the kind of offering that we need to give to the developers because what existing players like the larger banks are offering to developers for these kind of tie-ups that kind of an offering, we were not ready with. So we are working on that.

And once we are ready only, I think we will be able to get that kind of a thing in terms of how we are able to offer a quicker process for the developers, having people on ground on the project sites and everything. So that kind of a little more feet on street. So these are the kind of things where we couldn't achieve, I believe, the reasons why we couldn't achieve that particular aspect.

Raghav Garg: Sure. And sir, your INR10,500 crores, INR11,000 crores of disbursement next year, what sort of a ticket size increase are you building in for that?

Suresh Iyer: Yes, this year, we have actually -- our housing loan ticket size has improved from 22 lakh average to about 25 lakhs. And next year, probably we can still look at up to 27 lakhs, we can look at it.

Raghav Garg: Understood. And sir, just one last question from my side. I know you explained it to one of the previous participants on the opex. But sorry, I missed it, what is it that led to this 39% growth in opex? That will be all from myself.

Suresh Iyer: See, there are two components to this increase. Of course, one is the normal, as I mentioned, that almost INR16-odd crores for this thing was other expenses. But the main thing was we had a couple of one-off expenses like we have this GST for which we have INR6.5 crores. We had adjustments for 2017 onwards, which came for assessment in this year. So all those things, we have kind of closed. So that is about INR6.5 crores roughly.

A little bit is on the IT expenses, which I explained earlier that now we have another INR3 crores increase on a quarterly basis because of the IT which will be on an ongoing basis and some INR2 crores odd, which is for the fixed expenses, onetime one-off expenses, which we paid for the modifications and additions in IT that we introduced during the year. And a little bit is on the CSR where again, our obvious limits have gone up because the profits have been going up. So that also we have done. So these are some of the reasons because of which mainly the -- about INR12-odd crores mainly is because of this.

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: Lot of my questions have already been answered. So I just wanted to know our NIM target of 3.5. Are you being a bit conservative, I think you already in Q4 have achieved around 4% NIM. So like NIM or that was the first question. And what kind of ROA are we targeting for FY '25?

Suresh Iyer: 3.5 is what we said is something we would definitely want to work above that. Now how much about that is something we would not be able to say. Obviously, if it is possible. And if it is there, we will definitely try and work towards the higher NIM. But we would say in terms of the guidance or if you were to kind of do your projections on math, then probably you can work with 3.5. That is what I would say. As regards to ROA, I believe we will be comfortable with about 2.2 kind of an ROA for FY '25.

Darshil Jhaveri: I just wanted to know like in terms of picture, like somewhere in some affordable housing segments, you are seeing some issues. But is that even the mid-segment, are there some issues that they have been seeing industry-wide that can lead to further slowdown or inflation creeping up for some demand issues? Because supply may be launches are happening. But then on the demand side, do we see like any issues coming from that side?

Suresh Iyer: Of course, in terms of the super luxury and in the luxury segment, definitely, the demand is very, very strong. But even in this 20 to 75 lakh segment, the demand is quite decent. And in about six months' time that developers are able to mostly get out of the projects comfortably. So that is not much of an issue. I mean I don't see much of a problem in that because we have been getting good inquiries -- good kind of quality leads also.

Darshil Jhaveri: So congratulations on the great quarter.

Moderator: The next question is from the line of Pavan Kumar from RT Capital.

Pavan Kumar Sir, can you just give us a normalized run rate of opex apart from employees? Because this quarter, it was around INR33 crores. I understand given some estimation. But what should be their upgrade sustainable quarterly unit here on?

Suresh Iyer: See, we have got some fee and commission expenses, which are roughly in the range of annually, I would say, are in the range of INR27 crores, INR28 crores, which is going to increase in line with the disbursement target for this year. And other than that, opex are roughly in the range of INR18 crores to INR20 crores per quarter, roughly aggregating to INR80 crores a year.

Pavan Kumar: So this would be -- this would be INR20 crores from here on, right?

Suresh Iyer: Yes. For this financial year, quarter one start.

Pavan Kumar: Okay. Got it. And on the disbursement side, sir, I mean from the next quarter onwards, can we expect the disbursement to be let's say, average around INR2,500, crores to INR3,000 crores hereon? Or still it would take time for the processes to settle?

Suresh Iyer: See, actually, in the -- if you look at it, most of the companies, if you look at the -- since the last many years, that generally, there has been a trend that about 45% of the business happens in the first half and about 55% happens in the second half. So that way you can consider that, that kind of a trend would continue for us also.

Moderator: The next question is from the line of Shubranshu Mishra from PhillipCapital.

Shubranshu Mishra: So I think we've answered this question a bit before. So I just want to check, the average 55% increased roughly around 10% when we decompose the disbursement of which license is almost 57% would be a natural inflation which happens annually. And when we look at the number of loans, how many number of loans do we do on a quarterly basis now? And what are we thinking of doing on a quarterly run rate in '25 and '26 as well if you can spell that out? That's on the disbursement.

Second is, what are the reasons that we are facing in terms of reducing our DSA sourcing versus own sourcing? Third is, is there a board approved set parameter that we can't do much of construction finance? Is that an impediment to have more builder tie-ups? Because my sense is that the builders would really like construction finance, which later on gets knocked off with the home loan, making camping homes a preferential lender in that particular project. So these are my three questions.

Suresh Iyer: See, first of all, we are doing about 3,800 to about 4,000 loans in every month. That's the kind of number that we are having. And that comes to an average ticket size is about 22 to 25 lakhs, we would be getting somewhere in the range of about INR750 crores is what we are getting. Now in terms of what we are looking at in terms of increase in the ticket size and how much we could come from the increase in a number of cases, a 5% increase in the number of cases is what we would be targeting.

That is what will help us because as you rightly pointed out, there is an inflationary cost increase that happens plus, of course, that we are moving to a slightly higher segment from 25 lakhs to 27 lakhs is what we are targeting. So all three put together should help us in getting the desired result in terms of disbursement growth.

The second question was regarding DSA sourcing. In terms of DSA sourcing. So what we are doing is, if you recollect, we had said that last year, we had tried in about 51 branches, which are with a cutoff of some limit. We had introduced as a pilot about one month staff we have identified for marketing. So that has helped us because this year, from the beginning where we had about almost 85% plus of business coming from DSA channel in Q1, we were able to bring it down to 80% in Q4. And that has been a kind of a consistent reduction.

So this, we believe, has kind of helped us in getting some direct business plus incentive some of the internal contest and all that we are running is also helping us get some direct business. So we will be continuing that. And in this year, our plan is to have from 51 branches, we would like to roll out the same thing to almost all across our branches. Across all our branches, we would like to have dedicated staff of marketing from within our resources, not external. We're not going to recruit additional outsource stuff but from within our teams, we want to separate people for marketing and expand this what we have done on a pilot basis. So that is how we are looking at bringing down the DSA sourcing.

And the third point as to why we are not doing I think it's the construction finance, it's more of an internal decision. One, because we are not having that kind of construction finance, unlike retail requires a different kind of skill set and analytics and all those things of the developer, the project evaluation viability and all those things. We clearly believe we need to first have a dedicated team to analyse this before we can roll it out in a proper manner.

So that's why as an internal conscious decision, we are not going for construction finance for the time being as regard whether it would hurt in our APF push, probably yes. But any which way the loan is taken by from only one lender, but there are still 4 or 5 approved lenders who are there in any project. So probably we would like to be the remaining 3 or 4.

Shubhranshu Mishra: Just one data keeping question, if I can push on. What is the concentration of Bangalore and our disbursement as well as outstanding AUM? Same for Karnataka. And if we can speak about non-South territories for disbursement and AUM concentration.

Suresh Iyer: In terms of the region wise, I think we've already given in our slide but further breakup, if you want, in terms of the south, we have 65% in terms of the number of branches and 72% in terms of the disbursement. Now out of that 72% also, if you look at only Karnataka specifically, then we have about 40 branches out of 200. So about 20% of the brand field are from Karnataka. And the contribution is somewhere in the range of 27% to 28% of the business, incremental business is coming from Karnataka. And so also in terms of the portfolio is roughly around the same only.

Shubhranshu Mishra: What would be the concentration of Bangalore in this?

Suresh Iyer: Most of it would be Bangalore because we have very few branches outside of Bangalore. But of course, when I say Bangalore, it would also include almost 60 to 70 kilometers outskirt of Bangalore also, which actually is now because the city has also expanded so much. So I mean, probably all that would also be considered under Bangalore. But other than Bangalore or I would say that would be a little less.

Shubhranshu Mishra: Understood. Thanks, Suresh.

Suresh Iyer: Yes, thanks, Shubhranshu.

Moderator: The next question is from the line of Mohit Jain from Tara Capital. Please go ahead.

Mohit Jain: Hello.

Moderator: Yes, sir. Please go ahead.

Mohit Jain: Yes. Hi. Good afternoon, sir. Thanks for taking my question. Sir, you just hinted about the slowdown in the affordable housing segment. So in the current year, we had almost 37% for disbursement in this tank in less than 20 lakhs threshold. So going forward, do we see that we'd be having higher disbursement in let's say, 20 to 75 buckets? And the related question is, how is our interest rate different in the two buckets? Like which are the differential rate in the two buckets? So how is that going to turn out, sir?

Suresh Iyer: So I wouldn't say that there will be a major reduction in the 20 lakhs below 20 lakhs segment, we will still be pushing for it. But as a percentage, it would come down because with higher loans that we are doing, obviously, in terms of they will have a higher impact even , you know, three loans of about 35 lakhs would be equivalent to almost, you know, 10 loans of 10 lakh each. So that way, if you look at it, the percentage-wise, it might still come down. But in terms of number of cases, we would continue to do in the top 20 lakh segment also. So I guess that is what. And I think you had one question to it, right? I'm sorry

Mohit Jain: How the interest rate different in the interest rate differential.

Suresh Iyer: Sorry. Yes, interest rate differential. So we have about 65 to 75 difference between the below 20 and above 20 lakh segment. So about 20 lakh, we are offering our rates start from 8.95, whereas in case of below 20 lakh, it starts from 9.6.

Mohit Jain: Thank you, sir.

Suresh Iyer: Thank you.

Moderator: Thank you. The next question is from the line of Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: Yes, hi. Thank you for taking my question and Congratulations on a great set of numbers. Sir, on your Slide 14, when you mentioned the yield and cost of borrowing on our overall for the March quarter, you have seen a sequential decline in spreads, but your limbs are actually moving up by 4 bps when you compared to the December quarter. So I just wanted to understand this are what incremental needs and just as a follow-up, so do we see like incremental spreads being at 2.28% overall?

Suresh Iyer: Yes. So there is a very good observation. Actually, the page, Slide 14 that you're talking about, where the spread is 2.28, it is only for the disbursements and the borrowings of the Q4. So obviously, in Q4 being the last quarter, there's always an aggression and there are offers which are laid out and there are also this quarter, you also know the liquidity was also a little bit tight, which normally happens also in Q4. So the borrowing costs do go up. So basically, this is a Q4 phenomena, where it is slightly squeezed.

But in spite of that, because of the benefit of the rate increase on all that we are seeing, the overall in terms of the book, at the end of the year, we have experienced a spread of 2.67 so that's what it is. So in Q4, yes, incremental business, we've had a slight squeeze in the spreads but that is more of a phenomenon of Q4. And as soon as the rates come for repricing and everything, they will again reset in Q4 on the liability side as well as on the asset side.

Jigar Jani: So this is a discount that you have given to push growth?

Suresh Iyer: Yes, we have given some slight discounts in Q4. And we've also had a slightly higher cost of borrowing because of the liquidity issue.

Jigar Jani: Understood, sir. And secondly, given all the noise on the regulatory front, the regulator also becoming quite stringent on procedures and processes, any highlights from the regulator or NHB or RBI post your annual audit something that you would like to highlight if you've received any changes suggested by the regulator to be done in your systems or processes?.

Suresh Iyer: No. In fact, our annual inspection for the year ended March '23 got over in I think January '24. And the report has also been received and we have responded to the report also. And there are no any special observations or any kind of what you call restrictions or conditions laid down in that report.

It is business as usual. Overall, however, as you have rightly said that overall the regulatory landscape is slightly becoming tighter. And -- but that applies to all the players in the industry, not anything specific to us.

Jigar Jani: I understood sir. Thank you so much for answering my question.

Moderator: Thank you. The next question is from the line of Vinod Dadlani who is an Investor. Please go ahead.

Vinod Dadlani: I have a couple of simple questions. One is, was any recovery attempt made for the fraud which had happened a couple of years back and whether anything happened, anything is likely to happen, this is one.

And second is who's conducting internal audit in the company. Is it external sources or is it within the company?

Suresh Iyer: Yes. First point, in terms of the -- what happened 2 years back in 2022 we had an issue at one of our branches of Bhilwara where about 57 cases were identified where customers had submitted for forged income papers to get a higher loan. Out of the 57 loan cases, 50 loans have already been closed means they have been fully repaid and neither the customers have moved out by making the full payment and they've closed the loans or the loans have been taken over by some of the competitors. In fact, in a couple of cases even nationalized banks have taken over the loans from us -- from that pool of 57.

So therefore that continues. And even in those certain cases it is not that the customers are not there. Customers are very much available. The properties are also very much there and they have a good amount of value, but because they were classified as a fraud in '22, they continue to be flagged as a fraud. That is in respect of the 2-year old issue that happened. The issue in terms of the -- what happened in August this year, of course, there more recovery has happened. There the complaint has been filed.

The accused -- the main accused is behind bar and the -- we are trying to push it for the Enforcement Director or the CBI or the SIT will take over that matter. So that is something which is under process. As regards to your second question about audit we have our internal risk-based internal audit team which is carrying out the audit and the audit committee has laid down the guidelines for the -- carrying out the audit and all and it is the internal team which is doing the audit.

Vinod Dadlani: Yes. So it is head or risk who is head of audit, is it? Because I see in this main management team, I think somebody who is taking care of the risk management. So is it the one who takes care of the internal audit?

Suresh Iyer: Yes. Mr. Ratish who is the head of RBIA that is a risk-based internal audit.

Vinod Dadlani: Okay. So it is audit cum risk management, right?

Suresh Iyer: Risk-based internal audit that is correct. We have a separate CRO and so the risk basically is handled in terms of the overall risk and all those things is handled by risk department which is separate. Here, risk-based internal audit is what we call it, but it is the internal audit. So basically, risk is separate and audit is separate.

Vinod Dadlani: Yes. But then there's no mention about head of internal audit. I saw in every other function?

Suresh Iyer: Definitely RBIA is internal audit only.

Vinod Dadlani: No, no, I agree. But who is the gentlemen who takes care of risk audit because I didn't see his name I think, his photograph in the presentation.

Suresh Iyer: Mr. Ratish, his photograph is the last one in the bottom row -- the bottom row right side. He is the head of internal audit.

Vinod Dadlani: Fair enough. Coming back to question one, maybe there is some confusion. I think I was talking about this Ambala thing which had happened. That was something which had happened. So that recovery was done or that didn't happen?

Suresh Iyer: No, I said no. So that I will just tell in the courts right now and main accused is behind bars. And the money trend and everything has been -- whatever it is the police has to establish it and they'll have to carry out the further work in terms of seizing the assets and everything. So that in terms of that there is no recovery. The full provision was already made in the month of in third quarter and second quarter itself in September results we have already taken the full provision for the same.

Vinod Dadlani: Yes. So likely that whenever the recovery happens, it can be -- it can come as an additional income, is it?

Suresh Iyer: Yes.

Vinod Dadlani: So we can be still hopeful that there will be some windfall kind of a thing in next few quarters?

Suresh Iyer: Yes, technically, yes. It all depends on the speed with which the police works and the judicial system works.

Vinod Dadlani: Fair enough. I hope that you have the right people to follow up and ensuring that whatever can be done should be done.

Suresh Iyer: Yes. Thank you.

Moderator: Thank you. The next question is from the line of Chandrasekhar Sridhar from Fidelity International. Please go ahead.

Chandrasekhar Sridhar: Hi. Good evening. I have a few questions. One, Suresh could you just help us directionally how do you see the mix between salaried and self-employed moving over a period of time. I'm just started dropping, it's moving a little more in favor of self-employed in the recent past. So anything to read into that?

And directionally, how we want to move that. And could you just help us what's the yield differential right now on your average salaried book versus the self-employed book? And as we basically started doing a little more larger ticket sizes, do you think that -- I mean, given that yield may be a little more competitive over there, spreads sort of become a little more competitive that naturally the business basically does be a little more self-employed over a period of time to retain that 3.5% NIMs? .

Suresh Iyer: In a way you are right that, yes, the high network when we are talking about higher ticket size loans, there we are offering a competitive rate just like it has to be competitive in the market. So that does slightly impact our spread and our yields.

And therefore, yes, a little bit of SENP that that is a self-employed, we have slightly increased, a little more so in the Q4 as compared to the previous quarter. But there is no special effort to kind of push up the SENP or the self-employed category. Although, yes, we have kind of reviewed that segment. And now with more people filing returns and everything, therefore, we are able to get that also in a better fit into our norms.

So basically that is the reason why it has been slightly increasing. However, even in the self-employed segment we are not doing the cases of upraised income or surrogate income case document. So when we are saying self-employed, we are still talking about the cases where people have been filing at least 2 years of IT returns.

We have a very small component of portfolio which is a cash-based salary or which is with a 1-year ITR or something. It's mostly when we are talking about self-employed, we are talking about people who have filed two years IT returns. So that is one thing. But yes, that does give us about 0.5 percentage point, that is 50 bps higher yield in terms of the self-employed segment, vis-a-vis the salaried segment.

Chandrasekhar Sridhar: Got it. And directionally, this is not -- I mean this largely 70-30-ish should not become like 60-40 over a period of -- I mean like 3, 5 years, it's not directionally the way of thinking.

Suresh Iyer: No. We would still be comfortable with the 70-30 only.

Chandrasekhar Sridhar: Right. And you did say the last time around, you eventually wanted to get DSA down to 60% at some point in time. Just curious to understand what does it just mean in terms of sourcing costs? And while you haven't added additionally in terms of manpower right now at the branch level, just maybe how does it eventually help you save on costs, or do you need to start eventually at some point in time adding people on the ground?

Suresh Iyer: See, in terms of the DSA, right now, let me just say that incrementally, we are still doing -- well, in this year, we've done about 80% of sourcing through the DSA channel. However, on a portfolio basis, only 72% of our portfolio is sourced through the DSA. So that's the phenomenon of the last 3 or 4 years where the incremental sourcing from the DSA channel actually spiked and which we are trying to control and bring down. So in terms of the overall book, we are still at 72%. Having said that, we would definitely -- we stand by that, we would like to bring it down to 60%.

The second point is in terms of sourcing costs. See, the DSAs we have been on an average paying about anywhere ranging from 35 to 60 basis points we are paying on the loan amount at the time of disbursement. But on an average, it comes to around 43 to 44 bps is what we are paying to the DSA as commission. Now in terms of direct sourcing, yes, this will slightly reduce because what we'll be paying as whatever for incentives or staff or everything will be much lower than the 0.43% or 0.44%.

So to that extent, it will come down. Presently, at least, we believe that we will be able to segregate from our existing team and pull out a separate team for marketing. But going forward, we'll see as to how we will be able to manage this. As of now, the idea is to manage it from internal sources only.

Moderator: Ladies and gentlemen, the last question for today is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Sir, two questions. One is, what is the rejection rate for our study proposals that are raised or sourced from DSA vis-à-vis our own internal channel? And yes, if you could first address this?

Suresh Iyer: See, I wouldn't be able to give you what is the rejection ratio from the DSA channel. However, because many of our DSAs are well trained, they have been with us for a long time. So mostly, they are aware of our internal policies and what will be accepted in our system. So there, I wouldn't be able to give you. Most of the -- what I can say is that most of the cases is sourced by the DSA, at least the old ones who have been with it for a long time would be as close to probably about 98% to 99%.

However, in terms of the incremental sourcing which our people are doing, yes, the incremental ratio would be much higher. But again, I would not be able to give an exact number. I can only offhand say that probably it will be around -- about 25% to 30% would be the rejection ratio.

Shweta Daptardar: Noted, sir. Sir secondly, at the branch level, sir, do we have feeling on how much approvals or the targets which branch manager would have in terms of accepting a particular proposal? So is there a feeling on, say, ticket size or loan amount or anything on GNPA? And have these targets or feelings sort of undergone change as on today, wherein we are in the process of rejigging our systems and processes?

Suresh Iyer: See, there are delegation of power linked to the grade of the staff and the tenure of the staff with us. So based on that, it ranges from INR35 lakhs to about INR75 lakhs depending on the grade. That has not undergone any change in terms of our present system. We have continued to that. However, we have introduced an additional checkpoint wherein -- not a checkpoint, but an additional backup wherein we have a credit review monitoring department which reduce each and every case that is sanctioned by the branch. That happens in any time in a span of about 48 hours to about 96 hours within the -- from the time of the sanction at the branch level.

It is more of a double check by the Credit Review Monitoring Department, but it is not a bottleneck or it is not a show stopper because what the branch is sanctioned will continue. However, as a second check, if in the Credit Review Monitoring Department, what you have done is that if we are finding that there is some slightly higher risk that is being taken or onboarded by the branch, then we would take a call that we might either reduce or withdraw the powers of the branch manager. So that we have additionally done and that is what the CRM department has helped. So in a couple of cases during the year also, we have actually withdrawn the powers of certain branch managers.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Suresh Iyer: Yes, thank you. Thank you, everyone, for taking out your time and I appreciate all the queries. I hope all the queries have been answered. Of course, if there are any other further subsequent queries, you can always touch base with us. The presentation is there. I thank you once again on behalf of the entire Can Fin team to all the people who joined this conference. Thank you.

Moderator: Thank you. On behalf of Investec Capital Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.