



“Can Fin Homes Limited Conference Call”

June 02, 2025



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

MODERATOR: **MR. CHANDRASEKHAR**

Suresh Iyer: Hi, guys.

Chandrasekhar: Hi, Suresh. Hi, good afternoon.

Suresh Iyer: Yes. Hi. Are we audible?

Chandrasekhar: Hi. Yes, you are audible. Thank you very much. Just, if you could just wait for maybe a minute. I am just expecting a colleague to join in any minute.

Suresh Iyer: Sure, sure. Yes, sure.

Chandrasekhar: Thank you, Suresh. Suresh, I think in the interest of time we will start off.

Suresh Iyer: Yes, sure. Please go ahead, yes.

Chandrasekhar: So, Suresh, I mean, I think we may have met once, I think a few months back at one of the broker conferences very briefly. But just as a background, I am Chandrasekhar. I work with Fidelity. I have been here for about 11 years. I do cover the entire lending financial across banks and NBFCs. And we have about \$11 billion invested in India this at point in time. And about half of that is in financials, largely the lending financials, largely across the larger banks. Some in a few NBFCs, I mean, notably it is in Chola, to some extent Chola, some in Shriram. And amongst the housing finance companies, the only company we own some a little bit in Repco, we own little bit in LIC, and we own a decent chunk of Home First. So, that is part of the background.

We were investors a few years ago in Can Fin, quite some time back, but not anymore. But just exploring opportunities again at all periods of time. So, I really appreciate you taking the time out to meet. I just thought it would be a nice place to start off with when you joined the company in the start of FY '24 and then in the first year we had disbursements dropped to Rs. 82 billion from Rs. 89 billion. In the second year they reached up to about Rs. 85 billion. Obviously, the second year impact was a little more because of Karnataka, the e-Khata issue and Telangana issue.

But maybe if you could just take us through, aside of that, had there been any underlying issues? Obviously, the first year again some frauds which were detected, it slowed down a little bit. But maybe just your journey in the couple of years on why the disbursement did not move as much? And how do you think, if there were any internal challenges related to same? And at the margin, how should we think about that?

Suresh Iyer: Sure. Certainly. See, I joined in March 2023. So, that was almost fag-end of the year, so you can see I joined in FY '24. So, immediately after joining and when we were reviewing the processes, because one of the things was we had started making some changes in the processes, some of the internal things and all. So, you we came across a fraud in July 2023, within three months or

something of my taking over. So, that actually brought us to a situation where we realized there are not only a small few changes, but there are a lot of other changes also required.

So, basically, the first entire went in tightening their controls, internal processes, we are doing them, changing some of the ways we do the business and all. Like we introduced centralized disbursement, we introduced certain controls for KYC and onboarding of customer and so on. So, that was the first year we had those challenges or rather we internally said that let us first put the house in order, let us put all the internal controls and processes in place before we start running fast. So, that was the main focus for FY '24.

FY '25, we started off quite well because we also post, as one of the activities of our internal controls and strengthening our processes, we also introduced a new layer of zonal office, because earlier we used to have only branches directly reporting to the head office. So, we introduced this zonal concept. And then FY '20 this thing, if I look at the branch zones, we had six zones, we divided our entire operations into six zones.

North zone which consists of right from Punjab, Haryana, Himachal, Uttaranchal, UP and Delhi. Then the next was west, which was Rajasthan, Gujarat MP, and Maharashtra, that is actually a fairly large territory in terms of geography. The third was Karnataka itself, but Karnataka, although it was a state, it was the largest in terms of our book size as well as in terms of the contribution in terms of disbursements. Then next was Telangana, again, which was a large chunk of our business and incrementally as well as in terms of the book. The fifth zone was Tamil Nadu and Kerala and Pondicherry. And the last was east, the rest of it, basically Andhra Pradesh and the other states of Orissa, Chhattisgarh, Bihar, Jharkhand and West Bengal.

So, in terms of size, actually Karnataka was the largest with about Rs. 10,000 crores of AUM and contributing close to 30% of the incremental business. The next was, Telangana with about Rs. 7,000 crores of AUM and total incremental business which earlier at that point in time was somewhere around Rs. 1,700 crores, per year we used to do Rs. 1,700 crores, which was roughly about 20% or something there about. Then the rest was this thing.

So, last year, if you see, in the first-half of the year barring Telangana and east anyway was flat, but Telangana was negative. Other than that the four other zones which was Karnataka, Tamil Nadu, west and north, all four of them were doing pretty well. And the growth had already started coming in all those four zones in the first-half itself. And on the second quarter of this year, if you see, we had actually dropped by 18% growth in disbursements. So, unfortunately, the whole thing got wiped out because Karnataka, which was the major contributor with about 20% growth and largest in size, there we had some problems.

Chandrasekhar:

20% growth, you mean?

Suresh Iyer:

In terms of disbursement.

Chandrasekhar: 20% was the disbursement growth in Karnataka in first-half?

Suresh Iyer: First half we had, yes, we were almost doing Rs. 275 crores disbursement in Karnataka per month, whereas the year before that we had just done about Rs. 2,600-odd crores, which was about Rs. 220 crores per month. So, actually Karnataka was almost growing at 20% over there. So, unfortunately, that entirely got wiped out in Q3 and Q4 and we ended up with about 3% growth for the entire year in Karnataka.

But the other three zones, which is west, north and Tamil Nadu, continued to grow. And in fact, last year north zone we had about 36% growth in disbursement. Tamil Nadu and Kerala, Tamil Nadu zone had about 25% disbursement growth and west zone had about 15% disbursement growth. So, basically, but for this Karnataka matter, our growth would have been in double digits, which eventually was just about 5%, it would have been definitely in double digits about 12% - 13%, even with Telangana being almost 30% negative for the entire year.

So, basically, today, now that this issue is getting sorted out, e-Khata issue of Karnataka, so again the same situation is that we have north, west, Tamil Nadu and Karnataka already have started showing or rather three of them are continuing the same growth levels. And these four zones are already positive. And last year, east zone, which was just about flat --

Chandrasekhar: You are saying positive?

Suresh Iyer: Yes, positive in terms of disbursement compared to --

Chandrasekhar: You are saying Karnataka is --

Suresh Iyer: Karnataka has started picking up. So, in the whole year we had about Rs. 2,200-odd crores, or Rs. 2,300-odd something crores of disbursement, which now already if you look at it is about Rs. 225 crores per month. So, we have already started doing, we should be able to be there kind of.

Chandrasekhar: Okay.

Suresh Iyer: If you look at Q1, definitely the growth is there in April and May that we have seen, the disbursement growth is there, in spite of Telangana still being just about flat or thereabouts. Even east for that matter, which was flat last year, has started showing growth in this April and May month also. So, basically, barring Telangana, which continues to be kind of flattish or thereabout, we have other zones, other five zones which are already positive this year. And three of them have just continued their growth and Karnataka and east have also started showing positive signs. So, basically, growth will be coming.

And the controls that we introduced, internal processes that we changed, they are all now in place. So, starting from the onboarding or rather the customer onboarding right up to the time

the customer servicing and everything is concerned, at every step we have introduced additional controls or we have reviewed the processes, so everything is now in place. So, I would say, probably this e-signature is one aspect we do not have. And another is that our DMS that we are currently having is a little patchy in the sense that separate, separate modules are doing this thing, and it is not a single DMS. But we have DMS in different, different pockets.

So, other than that, I guess, in terms of the technology, in terms of the controls, I think we are very similar to what all other competitors would be having. All that has been put in place. We have introduced a tie up for valuation. We have put a tie up for our legal vetting report. For onboarding we have tied up with Karza, we have done a centralized disbursement for all our accounts that is disbursement is centralized. Other than that rental payment, our statutory payments, everything, all those also we have kind of automated, we have got systems in place. So, it is all in place.

Now, therefore the concern is only in terms of disbursement, where also as I said, barring Telangana, which is still about flatish, other than that we have started witnessing growth and it is about the zones. It is in fact continuing from where we left off last year, actually.

Chandrasekhar: So, I think you put out a double-digit investment number also for the whole year of this piece, right?

Suresh Iyer: That is correct. We are looking at about 20% growth in disbursement, that should be around 10,500, thereabouts. And that should give us about Rs. 5,000 plus crores of net addition to our book, which will be around 13% if you look at it, because we ended FY '25 with the Rs. 38,200 crores.

Chandrasekhar: And the assumption with this is that Telangana comes back at some point in time?

Suresh Iyer: The assumption is that this year also we have not factored in much for Telangana. Last year we did Rs. 1,198 crores from Telangana, it was a 30% negative growth. But this year we have just factored in about Rs. 100 crores, Rs. 110 crores per month, which is just about Rs. 1,300 crores or thereabouts from Telangana this year. But Karnataka, definitely we have factored in the positive growth which we are kind of witnessing and we are confident we should be able to do that.

Chandrasekhar: And the e-Khata issue, to your mind the backlog is largely cleared?

Suresh Iyer: Not really, in the sense that e-Khata has been kind of sorted out for the corporation limit areas. But for the peripheral areas, that the Urban Development Authority or the panchayat areas beyond that, it is still not done. But what we have done is, internally at least we have shifted our business a little more towards the corporation limits and we have also increased a little bit on the LAP side because there we do not need the administration.

Chandrasekhar: You do not require it.

Suresh Iyer: Correct.

Chandrasekhar: Okay, got it. Could you just remind us as to how is your salary customer different from a salaried customer a typical bank will target? I mean, who is your competition exactly here? I mean, you have I think 51% private sector salary, 50% government salary and 6% IT sector, which is the broad composition. But who is this private sector salary? And why would the government salary, for example, why would not they go to either in LIC Housing or even some of the other PSU banks, in fact your own parents? So, maybe just help us where at which point is your customer different?

Suresh Iyer: See, actually our customer in the private sector would be, if you look at our average ticket size, it is about Rs. 20 lakhs, Rs. 25 lakhs. So, our average ticket customer would be the ones who are having roughly Rs. 60,000 to Rs. 80,000 kind of salary broadly. Of course, there are higher sizes also, but the larger chunk of it would be in the Rs. 50,000 to Rs. 80,000 kind of income segment per month. So, that segment would basically be in the private sector would be not in the kind of market companies in the listed companies or things like that. But smaller companies which are manufacturing units or things like that, or they would be working in other mid segment kind of entities, okay. And that is the kind of segment that comes to us.

Obviously, these kind of segments prefer to buy houses more in the periphery areas where our presence is more. Whereas the bigger players like banks and all are more concentrated within the corporation limits or within the bigger metro towns and Tier-I towns. So, our customers would be the ones would be looking at buying slightly lower cost houses in the periphery because that is affordable from their segment. They can still get a decent two-bedroom kitchen house and maybe preferably with the land because 65% of our customers are having their own construction on owned land. So, it is a land plus house, it is not an apartment.

So, they would be able to afford that land and be able to do construction and still be able to take a loan. And there, in fact, our presence is more. Therefore, this is mainly the kind of customer who comes to us. Even in the government sector they would probably be customers who are in maybe not the top three levels or something of the government employees. But people who are in their Class-3, Class-4, employees of government sector would be the ones who will be coming to us.

Chandrasekhar: Right. And is the ticket size for government employees would be different from what you do with the private sector or is the ticket size also similar?

Suresh Iyer: No, the ticket size is actually, if you see, our ticket size would be, I mean, banks normally have a Rs. 35 lakh, Rs. 40 lakh kind of segment which they are catering to. Whereas in our case, our ticket size is Rs. 20 lakh, Rs. 25 lakh. So, in that segment it will be a little lower. But in terms of the HFCs and the NBFCs space, yes, it would be very similar to what LIC Housing, PNB

Housing or a Bajaj Housing would be having. And if you look at the other affordable companies, they are obviously in a different segment. The rate of interest is at least 2%, 3% higher than what we offer, so they do not match. They would not be able to match us, nor are they in terms of the ticket size because their ticket sizes are normally about Rs. 10 lakhs to Rs. 15 lakhs. So, for us, I think these three players would be the key ones in the NBFC and HFC space. Whereas in terms of the banks, yes, we have --

Chandrasekhar: LIC, Bajaj and sorry?

Suresh Iyer: PNB HFL, PNB Housing.

Chandrasekhar: You said, LIC, Bajaj and?

Suresh Iyer: PNB Housing.

Chandrasekhar: PNB, okay, yes.

Suresh Iyer: PNB HFL.

Chandrasekhar: Yes, got it. Yes. And Aditya Birla?

Suresh Iyer: No, not much. We do not hear Aditya Birlas and all much in our competition. Of course, they are there, but I think they are in the high ticket side, not much for us.

Chandrasekhar: Got it. How do you assess if employed customers within this, I mean, I think it is 20%, 30%, close to about 30%. And how do you assess these, do you assess only customer self-employed who have tax returns and who is your competition in this space?

Suresh Iyer: Yes, we are only looking at those customers who are filing IT returns, so three years preferably. But yes, two years and all with some deviation powers, we are looking at that also. So, they have to be necessarily filing IT returns. We still do not have a product which matches what the affordable housing finance companies have of appraised income where we do based on the cash flow. So, we are looking into introducing one product for that. But as of now, we do not have that segment which we cater to. It is mainly the ones who file IT returns.

Chandrasekhar: So, this is even for the self-employed customers, basically you want someone who files IT returns?

Suresh Iyer: Yes, yes. For self-employed IT returns. And for salaried where the credit is in the bank account.

Chandrasekhar: Would you underwrite any customers at all who do cash salary business?

- Suresh Iyer:** We have a small product called NIP, where cash salary is considered, but that is actually a very small percentage for us, it is not a large percentage for us. Because we have a cap in the ticket size, so it is not attractive, even our staff is not very keen to look at that product, we limit it up to Rs. 10 lakhs only.
- Chandrasekhar:** And typically, on an annual basis or maybe what you see, how much of the business is typically transfers-in or transfers-out?
- Suresh Iyer:** See, transfer-in is not much of a portfolio for us, because, obviously the ones who have taken from banks will not come to us, already they are having a price advantage. Maybe somebody who is having a salaried segment and from a affordable housing finance company or an NBFC might look at us. But normally, the BT-in, that particular product works where there is a good amount of top-up. That is the only attraction to be in a way some customer who is with a little bit of interest differential. And in case of top-ups, we are not very open in terms of, and our valuations are little stricter compared to what others would do.
- In fact, our BT-outs also be observed that many of our customers, they are not able to match the loans that they are given by, offered by the competition as top-ups because their valuation is much higher. Whereas our valuation is a little more conservative. So, what happens is when a customer says that I have already offered, I am taking over my loan or I want to close my loan because I am moving out and I am offered a Rs. 20 lakh top-up, we cannot even give Rs. 6 lakh Rs. 7 lakhs to that customer as a top-up. So, then we have to let go that customer.
- Chandrasekhar:** I think you mentioned it the last time that when we met, I think Bajaj was basically doing this because you were losing to Bajaj.
- Suresh Iyer:** Yes, Bajaj and even others. But Bajaj was the leader for us. I mean, among all the branches if you ask, I think majority of them would say that BT-outs are also going to Bajaj with the top-up.
- Chandrasekhar:** Would you think of that the BT-outs happen typically on the third, fourth year vintage customers after they have been with you or is it happening with even at earlier frequencies?
- Suresh Iyer:** There are at the earlier frequencies, but I guess I have not, I mean, it is across. Even a five-+year old customer sometime goes, it all depends on when they are able to contact the customer or when the customer requires some fund, in which case, even if they get a message, they will explore it. But I guess, I would probably say in the first and second year it is a little less, though I do not have the exact figure right now. But I would assume, yes, in the first and second year it is less.
- Chandrasekhar:** Sure. How much would be annual BT-out or BT-in?

Suresh Iyer: BT-in we do not aggressively monitor and we do not push also. So, I do not have a figure for that. But consciously, we do not do much of a BT-in. But BT-out is somewhere I would say around 3% to 3.5%, 4% not more than that.

Chandrasekhar: And when you say 3.5% to 4%, this will be across the plain vanilla mortgages or a blended basis or on the LAP business? How much would this be in the LAP? Because LAP is typically a business where you keep BT is very common, right?

Suresh Iyer: No, till now we were not doing LAP as much, it was only about 5% and that was also to our existing customers only. So, we were not monitoring it separately whether where is the LAP coming. Our LAP for new customers, it started only in January 24th. So, till that time we were not even offering that as much. So, right now, I would say that it is more on the housing portfolio only that we have this BT-outs happening. There is not much on the backside of it.

And how I am saying 3.5%, 4% is because total, if you see our total prepayments, we have approximately about Rs. 1,300 crores to Rs. 1,350 crores of amortization plus BT-out plus part payments and everything you would see in our presentation also in a quarter. And out of that the amortization portion if you remove, that is about 3.5% to 3.75% or 4% our BT is at amortization which is the principal component of the EMI which comes back.

Then we have our part payments where the loans are continuing with us. Because obviously your BT-out means if it is somebody is taking over loan it will be a complete closure, they cannot take out part of our loan and leave the first mortgage us. So, in that case, the about 80% of the portfolio roughly comes where the loans are still continuing with us, but the part payment has been received. The customer has paid Rs. 50,000, Rs. 75,000, Rs. 2 lakhs or whatever, but the loan is still live with us. So, obviously that cannot be a BT-out. The remaining portion is about 4% which roughly, as I said, could be the BT-out.

Chandrasekhar: Got it. Right. Where do you see the share of LAP going up on a prospective basis? I think you had indicated at some point in time that some of your competitors are obviously hitting up limits in terms of the amount of LAP which they can do by virtue of being in HFC. Is some business which we are getting a function of that that some of our competitors are hitting limits? Or is it an active policy which we are choosing? And to your point, now are you doing more business directly originating LAP versus the existing customers eventually moving to?

Suresh Iyer: See, I would say it is more of a conscious effort from our side. Not because of this thing, because as I said, on January '24 only we actually launched a separate LAP product. And in spite of that, our portfolio was still hovering around 5%, 5% only in terms of LAP till our e-Khata issue happened. Only after that we have seen a jump that is also because we were compelled to move out of the development areas, BDA and the panchayat areas and do more of LAP. So, it is more of a compulsion and more of an internal pressure and internal efforts that we have increased our LAP rather than it's than the competition stopping it and that is where the business coming to us.

- Chandrasekhar:** And is here is an eventual endpoint which you have in mind of how far you want to take LAP up to?
- Suresh Iyer:** See, current our non-housing including LAP including top up including a little bit of personal loans that we have as just for consumption. Our total portfolio we do not want it to exceed 20%. So, our know housing including CRE has to be 80% and we do not want the rest to go more than 20%. So, therefore, I would say LAP, I think we would like to stop at around 10%. Today it is still just 6%, but in another 2 years, 3 years also even if the increase you would like to put a stop at around 10%.
- Chandrasekhar:** When you say non-housing ore plot loans classified as housing or non-housing? Say.
- Suresh Iyer:** Yes, they are classified as non-housing.
- Chandrasekhar:** And just for my understanding, on a plot loan as an HFC, you are allowed to front plots with the caveat that they need to start constructing by a certain period, right? Otherwise it is converted to a housing loan, right, because you cannot fund land as an HFC?
- Suresh Iyer:** Correct. So, what we do is we take this listing that the customers would start the construction within 18 months. But many times, what happens, customers do not start the construction. So, we have a process because first disbursement will be going for the plot area where we would limit it to around 60% or something of the plot cost. We were saying about this plot loan, so what we do is we take this certificate from the customer that they will start the construction.
- We give the first disbursement towards the purchase of land, which is about 60% of the cost of the land. Documented cost of land. Now the customer, if it does not come for the second disbursement in the first 18 months from the first disbursement then in that case we compulsorily convert it into a plot loan. And then we charge higher rate of interest also and we classify the loan from a housing to a non-housing category.
- Chandrasekhar:** So, are you saying that some of these loans which you classified as plot loans were actually originally meant to be housing loans, but that got reclassified?
- Suresh Iyer:** Correct, correct, correct. Absolutely. So, every month we have this process where we review all these cases.
- Chandrasekhar:** Okay, okay.
- Suresh Iyer:** If it has crossed 18 months as such the regulatory guideline is says 36 months, but in our case we keep it 18 months. Because if in 18 months the customer will not commence the construction, then you convert it into a plot loan and charge higher rate of interest. And reclassified from a housing to a non-housing category.

Chandrasekhar: What do you want to increase share of self-employed customers to and just on the ground as an organization, what do you sort of change for us to be able to access more self-employed customers? And if you have to do that, I would presume the reason for doing this is to maintain a certain level of margins the 2.5% spreads in the 3.5%? Or is there something else?

Suresh Iyer: No. First is in terms of the segment, it is a very large segment. So, that is one of the reasons. And of course, compared to previous times where it was very difficult to **assess** the income levels and everything for those who do not file IT returns. Now what has happened is you know the number of people who are filing IT returns has also gone up. And two, even otherwise like for example with UPI payments, with GST returns and everything, there are better ways to also assess and a more reliable ways to assess the cash flows of customers.

So, that is the reason why we did it. Plus of course the fact that we want to improve our yield and as mainly the reason for yield is not to that we want to increase the yield, but basically to offset some of the rate that we will lose out when we move a slightly higher segment than the salaried segment. Like when our average ticket size was around Rs. 20 lakhs, Rs. 22 lakhs, now we are moving closer to Rs. 25 lakhs. So, the higher we move, it will become little more competitive in the market.

So, we may have to offer attractive rates. So, keeping that in mind to offset that interest loss, we wanted to also look at self-employed segment. So, at March '23 we were about 73% salaried and 27% self-employed and we decided that by in the next five years that is up to March '28, we can go up to 65%, 35%. So, 35% can be self-employed and in that journey, we are right now at 70%, 30%.

Chandrasekhar: What has changed within the organization, just on the ability? Because I thought you just said that you still do not do much of the assessed income and you spoke about UPI, GST. This is sort of builds up a synthetic balance sheet of a customer when you do not have a real balance sheet of a customer essentially.

Suresh Iyer: Correct.

Chandrasekhar: But I mean, given that you do not do much work on synthetic underwriting. How is this going to work and what are the challenges at the execution level?

Suresh Iyer: We still do not think we want to go to the completely appraised income or surrogate income proof like the EVV methodology or the surrogate multiplier method and things like that. But this particular product that is from three years, first of all, we allowed up to two years with some deviation so that is one change. The second change is that in terms of our self-employed where they have documentary proof in terms of UPI payments or in terms of GST returns for that again, we have started as we are launching a new product that will slightly help us in improving in this segment.

So, basically, these are the two major things that we have done in case of this. Plus some kind of deviation for people who have filed returns. As I said, we have given to the zonal office, now that we have a zonal office. So, that is also helping us in slightly improving our SENPC, self-employed non-professional category.

Chandrasekhar:

And are the targets now set accordingly at the branch level also that we need to do at least these many bigger disbursements at least one-third should be coming from self-employed or something like that?

Suresh Iyer:

So, it is already coming. So, we have not kind of set target, but what we have observed is that there are certain areas where there is more self-employed segment like one of the reasons why west, north and Tamil Nadu are also growing is because they are also more self-employed segment in those geographies who are there. Whereas probably if you look at the Karnataka, it would still the salary would be a little higher.

Chandrasekhar:

So, geography in itself is playing its role?

Suresh Iyer:

It is also playing its role.

Chandrasekhar:

And how are you sourcing these additional I mean, is the channel for sourcing, is in incremental basis I mean particularly different from what is current or what you are doing, is the cost of sourcing this particular different? I remember I think you said that about 43 basis points is your sourcing cost at this point in time. But any difference at all in terms of sourcing costs?

Suresh Iyer:

See, we have started one internal sales team, the sales channel we have launched last year. And it is a very small team, I mean just about 39 we have started. So, we were just experimenting on how this works out. So, they are now almost in the month of March the productivity now all has been able to meet our expectations. And at the rate at which cost staff per month business happens in that sales team, we observed that we are able to kind of better than what we would have paid to the DSA.

So, that is basically something if we can work on more, which is what we are trying. We are adding another 75-odd people to the team this year. So, obviously that is, if that kind of productivity levels are maintained then we will be able to actually save in the cost because the actual expense that we are paying which is basically the fixed cost of salary to these people is lower than what we would have paid to them.

So, basically 43 bps means now for the salary that we are paying, if they do about Rs. 80 lakhs per month as disbursement then I think they are doing better off than what we would have paid to the DSAs. In terms of the salary cost would be less than what we would have otherwise paid for that Rs. 80 lakhs per DSA.

- Chandrasekhar:** So, what we should be seeing as investors is this will start showing up obviously in better yields for you, but also higher OPEX. But there could be a net saving at the PPOP?
- Suresh Iyer:** Correct, correct. That is true. That is true. So, that will be like you said fixed cost increase in the terms of salary. But if they are able to do more than Rs. 80 lakhs per month as disbursements or on an average basis the sales team, then in fact, we will be saving a little bit on the DSA cost.
- Chandrasekhar:** And try to say that these people are essentially only introduced for the purpose of sales, because if they have to meet targets, target meeting is not particularly difficult, right? I mean there should be either claw backs on if the asset goes bad within 24 months. There is some claw back and then do they look at any particular collections also or anything at all?
- Suresh Iyer:** No. In fact, right now we do not have that claw back system because they are all taken as employees. But we do look at it from the point of view of what is the performance. So, if in the three months fine, we will give them some allowance. But if by the end of the sixth month they are not kind of delivering the kind of results, then we will be looking at changing them or moving them out.
- So, that definitely is there because once we say it is on the role, on the as a salary as a staff then in that case obviously we cannot have a differential methodology for them as well as the others. So, it is a fixed cost, but we bear the six-month cost beyond that they have to start delivering and then only they can you know continue. So, that is the point of, that is thing. And yes, this team is exclusively for marketing, so sales and other things.
- So, they do two things, one is they source direct business from the market. And two, they also help in setting up our APF tie-ups, this is an approved projects that we have with the developers. They have been getting these APF tie-ups also in place. And once the APF tie-ups are in place, of course we get visibility plus the fact that we get hot leads because the people who come for enquiry there are the ones who are actually, right as they have at that moment looking for a house.
- So, they will get that the those leads also and then obviously the conversions will start happening from all these approved projects. So, these are the two things. Collections and all obviously we do not have a target for them, but it is understood that the cases that they source have to at least meet the basic criteria and should not get into quick mortality or into quick delinquency.
- Chandrasekhar:** So, you have a system in place. I mean, what if the account goes the link within six months? Or I mean because if your incentive is purely on sales, it is not very difficult to meet the target.
- Suresh Iyer:** Obviously, we have we have the monitoring mechanism. We are looking at the QMA accounts, the quick mortality accounts and how they have been sourced and what is the action. In fact, we have been doing it even for the DSAs because our DSAs also we have an 11-month contract. Every 11 months or every one year they have to actually renew their DSA code and at that time

if the delinquency is higher or if more number of cases are getting rejected or the quality is bad, then we have a mechanism we do not renew them. We actually remove them.

Chandrasekhar: So, what is the purpose then of doing this of reducing the share of DSAs I think you wanted to get it down to 60% DSA eventually?

Suresh Iyer: Correct.

Chandrasekhar: What would be the logic of eventually, do you think that there can be some cost saving, the fixed cost addition should offset it or is there anything beyond it that the quality of cases which you source directly will you believe will essentially be better than the DSA cases. Especially since you do a DSA audit on a regular basis.

Suresh Iyer: There are basically two things this of course the cost saving is incidental and would probably be the third and the least important of it. The first thing is that when we are looking at a direct sourcing through our own sales team. What happens is we get a choice of the segment that we want to cater to. Otherwise in terms of the DSA, they can actually give us the cases which are probably not fitting into the norms of the other companies.

And therefore, they are putting it to us because we do not pay the higher commissions. Like normally our DSA payouts is 0.43, it starts from 0.4, goes up to 0.7. Whereas in other places it is 0.6 to point to 1% and all. So, obviously the if they are letting go that 0.6 and 0.7 and coming to us, it is obviously because those companies are not accepting those cases. So, obviously, even though we get 10 cases and we are able to select from that and we have a tight control on the onboarding because our own team does the credit appraisal.

But still that selection is not of our choice. So, our team can do the presence, they can be on the field, our brand awareness also increases with our own sales team. Our APF tie-ups also increase with our own sales team. So, that is the first and primary active reason why we moved out of it. Or rather not moving out of it, but where we want to develop our strong internal sales.

The second reason is that in case of a DSA source business, there is always a little risk of a BT out, because after two years the same customer, they will want to encash the customer and earn out of it because that is the main line of business. So, there is a possibility, although as of now our BT out is more from our direct cases than from our DSA cases. Because you know our traditional business earlier was more from direct business than from the DSA business. So, today, that is also another potential risk that we perceive, which we want to sort of kind of minimize.

So, these are the two major reasons why we said we will continue with their sales, they will grow, but then we also want to have our own strong sales channel internally.

- Chandrasekhar:** Got it. Got it. So, if you had to take I mean, you have always said that you will try to keep the 2.5% spread and 3.5% NIMs. Is it fair to say that it will be managed over a period of time with slightly higher lapse, slightly higher self-employed offsetting any potential pressure on salaried? So, that is broadly, the way we maintain, so mix basically helps us keep margins in a reasonably tightest band.
- Suresh Iyer:** That is correct, absolutely right.
- Chandrasekhar:** That's right. Okay, got it. And I think you did say that costs are changing with repo cards that you are I think the 1st of April you will pass it on in June and the one which comes. The first one, sorry which came in Feb you passed it on the 1st of April. Which came in April you will pass it on?
- Suresh Iyer:** We actually experienced it by 31st of March. When the April we reviewed our cost of borrowing and it had come down by 10 weeks, which we passed on from May onwards. April one will be impacted or will completely come to our books with 30th of June. So, we will do it in July.
- Chandrasekhar:** So, there could be a very brief interim period where spreads move up a little bit, but therefore eventually sort of getting passed on.
- Suresh Iyer:** Yes, yes. Correct. Additionally, today we moved from annual preset to a quarterly reset in January '24. So, new cases from January '24 are on quarterly reset. But the older portfolio is still on annual reset and customers have to come forward and execute the documentation to move from annual to quarterly. And today, as we speak about 75% only of our customer, I mean 25% only are in quarterly receipts, the remaining 70% are around fixed. But in the next six months, we expect that a lot of large chunk of that will move to quarterly reset. So, in case of the annual reset portfolio, even though it is we have changed from by 10 which we have passed on their impact will have will be a little more staggered.
- Chandrasekhar:** Okay. So, then it will be quite some time before the entire back book is which is the benefit of -
- Suresh Iyer:** At least six months we expect six months before a majority of the customers will move to quarterly reset.
- Chandrasekhar:** And would the customers have to pay up something to move to a quarterly reset?
- Suresh Iyer:** No, that is not just a administrative fee of some small token fee. There is no interest percentage with differential that has to be given. They just have to, because actually today, what happens is we do not differentiate between existing and new customers. When we say we are using 10 bps in fact all our existing customers also will get it over the period of time, as and when the reset happens and new customers also get it.

Chandrasekhar: Yes.

Suresh Iyer: So, unlike many other players who only change the incremental lending rate and do not change it for the existing customers, we do not do that. For us in fact, all our customers who are equal who are similar in nature with a similar credit rating for the same product we will get the same rate of interest.

Chandrasekhar: Got it. That is interesting. I had a couple of quick questions, just I am conscious of time. What necessitates this sort of investment in technology systems, I think is spending Rs. 297 crores, I think some of it is, some of it is RevEx and some of it is CAPEX. And I think the numbers are hitting the P&L next year, if I am not wrong? That is incremental Rs. 40 crores a year or something, right? Which is sort of going to be hitting the payment.

Suresh Iyer: Yes, that is correct. Our overall cost would be Rs. 55 crores to Rs. 60 crores, but we are already spending Rs. 15 crores, we will stop once we move to the new system. So, net incremental would be around net about Rs. 40 crores would be the additional expense coming on to the P&L per year. So, what necessitates this--

Chandrasekhar: And what necessitates this?

Suresh Iyer: Yes. So, currently we are having a vendor who is provided as the LOS and LMS and there is a they also factored in a third-party solution of a GL and deposit package with it. And basically, it is a monolithic system which was actually implemented way back in 2011, 2012. So, already it is something which needs an upgrade plus the current vendor is only an LOS LMS provider. So, we wanted a system wherein everything gets integrated and is brought in.

So, therefore, we thought it is better to have a SI who can come with a complete suite of products and get us get everything integrated and provide to us. So, that is why we actually floated with this RFP and IBM eventually came out as the lead. And we therefore signed up with IBM. The process is already going on right now. The project is as of now on course for a first phase delivery of ALM, Treasury, CRR and LCR package in August and the LOS LMS deposits everything in November.

Chandrasekhar: Got it. Right. We presume that they would be running parallelly for a bit, so that there is no disruption, I would presume.

Suresh Iyer: Not, not really, not really. But yes, once the ALM package is there, so there will be at least for that component there will be that system will also provide some numbers. Currently also we are having those numbers. But I think it will not be affecting branches because this is purely something which is managed at the head office. So, for the branches there will be no parallel run. We will directly implement it in the month of November.

Chandrasekhar: Okay. Got it. Last three questions maybe, why would you have management overlays in the provisioning when bad asset creation itself is not material, we are barely having. So, why would you keep having management over this?

Suresh Iyer: See, actually, from the PCR point of view, which although we are not actually having PCR, it is after this ECL guidelines or this thing it is mostly the ECL provision that we have to make. But that was working out to just about between 45% and 50% of the Stage-III assets which is NPA. So, therefore, compared to what we have in the past, maintain at a much higher level. It was just something to maintain a little better backup for it, that is the only reason.

And currently we just thought maybe up to 15 bps more if we can provide that should be good enough. That is the only reason we have been managing it or we had kept this management overlay. And last year also, if you see there was a Rs. 19 crores additional income that we received or rather an additional point which was not from the current year business. It was basically the additional provision for tax that we had made in FY '24 because we changed our accounting for taxation and tax calculation.

So, that additional Rs. 19 crores once the assessment got over that had to be returned back, so that was also one of kind of an income or this thing which was coming into the books this year. So, it was Rs. 19 crores. So, we said about Rs. 25 crores we can do it. Otherwise, technically you are right. Then in Q4 we had Rs. 10 crores write back which was actually as per the ECL calculation, there was a Rs. 10 crores write back in the provisioning.

Chandrasekhar: One more question, where do you think we are on just potential RBI regulations based on two entities sort of similar businesses? And if that whatever happen, will Canada Bank go down to 20%? And if so will they go down to 20%, does it affect our cost of funds at all?

Suresh Iyer: See as of the moment, there is no discussion on that particular circular because after that there has been a change. The new RBI governor does not seem to be very keen or at least has not indicated anything or has not pursued this at all. So, that is one thing. But if at all the regulation comes because first time they have come out with the draft circular and if at all at a later date it comes, then obviously Canara will have to reduce its stake.

I would assume that there is no point in keeping a smaller stake because right now they are 30% by doing about 10%, 12%, nobody gets management control. So, anybody who wants to invest would probably would prefer to have management control, in which case that is what I would presume. But of course, that is purely a decision Canara will have to take, although there is no discussion as of the moment right now.

But yes, if we cease to be promoted by Canara or having a Canara as our parent company, Canara Bank then in that case definitely there would be some impact on our rating. And I would assume about 1 level drop in our rating from a AAA to AA plus which could be around somewhere around 20 bps kind of a decrease in our incremental cost of borrowing.

Chandrasekhar: 20 bps, okay.

Suresh Iyer: 20 bps, yes. But again, that is the in case if this happened, whereas as of the moment there is no such discussion which is happening on this particular circular.

Chandrasekhar: Right. And lastly, I just wanted to ask you a question. I mean, are there any challenges of being in an organization where reasonable chunks of the pay scales are still benchmarked to public and at the pay scale levels? And just related to this, how is it the pay scales are different in Can Fin versus PNB Housing, this is something that I am not able to understand. Because I have seen the pay scales they are a little more private sector like largely. So, I just wanted to get some sense around that.

Suresh Iyer: Sure. See, of course, the pay scales are they are at the higher levels there is considerable disparity from what is being offered in the market, whereas at probably at the joining level at the lower entry levels and up to the level of maybe the manager senior manager, I think it is fairly very, very competitive. I fact probably we could be paying a little higher also than the market. But for the higher levels, yes, there is a bit of challenge. So, normally for any CXO level positions and all, we will be having to go to the market and take on contract or things like that and offer a market driven salary, not exact exactly on the role of the company basically that is how we will have to handle that situation and which is exactly like what banks are doing.

As the second part of your question about how PNB Housing is different where compared to us is that actually 2018 when there was a pressure from RBI on banks to exit from all subsidiaries and could bring the capital back on the books because there was a bit of a challenge on the capital side. At that time actually, PNB went ahead and offered a sizable chunk and Carlyle emerged as the leading shareholder, it was having more than PNB.

So, basically, Carlyle has, the private sector has driven it, although for PNB continued to have a very large chunk in PNB Housing. So, I guess that is where the difference comes in. But now again, Carlyle has exited, it is back to PNB is the only and largest shareholder and the only one having more than 20% stakes. But of course, things have already changed. That is the salary structure that is already been finalized now. So, I guess that is the main reason why Can Fin and PNB have a different structure.

Chandrasekhar: Any particular challenges as so is it? Is it fair to assume that at the CXO level most people are on contracting as a result at market driven pay scale in Can Fin?

Suresh Iyer: Not really. Because this is something that off late we have started doing. So, the CFO we got previously in 2023, he came on contract. The new CFO, because he resigned in December, left in March, so the new CFO also we are getting from the market on contract. But yes, going forward, right now we already have all the other CXO's in place, who have been basically homegrown talent who have taken up those responsibilities. But going forward when, obviously,

if at a situation they retire or something of that sort and we have to get people from the market, we will have to get them on contract.

Chandrasekhar: Understood. Any particular challenges which you have seen in your couple of years as a result of this? I mean, maybe it is just iteration, but anything else?

Suresh Iyer: No. Obviously, this attrition is not as much because our attrition is still about between around 13%, 14% only, which is still quite low. But yes, getting the talent at the senior level because of this will be there, for which now the board has clearly given the go ahead to take on contract and kind of market driven salaries and all. But the culture is one thing, but again if they are not up to the challenge, yes, of course it is a PSU culture, it has also been a PSU, so the sales-driven approach is something we will have to build in the system. That is one thing which we have just initiated and we are trying to develop it. And this year we are going to further increase from 39-odd people that we have to add another 75 people. So, it will definitely be more than 100 people that we will have by the end of the year. So, obviously, we are trying to move kind of a sales driven and that kind of a culture we are trying to build into the system now.

Chandrasekhar: Last Suresh, just last question, how long is your tenure and contract?

Suresh Iyer: Currently it is a 3 + 2, three years is the initial contract, extendable by another two years for which they will have to go to the board. Approval will be required, and shareholder approval will be required. I have completed two years and a little more. So, probably my tenure will come up to end in March '26, and at that time the board will have to take a call and then shareholder approval will be required.

Chandrasekhar: I mean, if you are given the choice you would pretty much be happy to stay on.

Suresh Iyer: Yes, that is correct.

Chandrasekhar: Got it. Thank you so much. You have been very kind with your time. Thank you so much. Much appreciated. Take care. Bye bye.

Suresh Iyer: Thank you. Pleasure talking to you. Thanks.