



“Can Fin Homes Limited Virtual Meet”

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

MODERATOR: **MR. KSHITIJ BHATIA – FIRST PRINCIPLES**
MR. RAHUL BHATIA – FIRST PRINCIPLES

- Kshitij Bhatia:** This is Kshitij, my partner Rahul should be joining.
- Suresh Iyer:** Sure, sir. No problem. How are you?
- Kshitij Bhatia:** Good, how are you? I think we last met in May of 23 when you just joined. We were visiting Bangalore. It's been a couple of years. Rahul is around, but we can reintroduce ourselves if that's helpful.
- Suresh Iyer:** Yes, it's okay, I think your colleague has also joined.
- Kshitij Bhatia:** Yes. Rahul is around. Hi Rahul. So Suresh, just quickly to reintroduce ourselves. We have been investors in Can Fin for 5 years. Rahul and I run a fund called First Principles. First of all, congratulations, for us, it's been a good investment. We invested right after COVID, but just a little bit on our background, before I started First Principles, which is a fund that is U.S. based, but invests only in public markets in India, and only in a handful of companies, we are very concentrated.
- I used to be at Warburg Pincus in India, where we invested in a lot of financial companies. I was there from 2010 to 2017, so AU Bank, and then, was a spinoff of that, was an investment, Future Capital, which became Capital First-IDFC Bank, it was an investment, and then ICICI Lombard.
- After I left, they've done other things, including Shriram more recently, Shriram Finance. Before that, I was in the U.S. doing consulting and banking, and before that, I grew up in India, I went to IIT Delhi, so that's a bit of my background. Rahul, I don't know if you want me to share your background, since you are on mute.
- Rahul Bhatia:** No, no. It's okay. Really a pleasure meeting you guys. So, Kshitij and I go way back. So, we were at IIT together. So my journey is a little similar. I came to the U.S., was doing consulting for a while, and then after doing MBA, I moved to Finance, and I was at Citi before I started investing in India full-time, so that's a little bit about my background. So we have been working together for a while now, and like Kshitij said, Can Fin has been a good investment for us, and just wanted to refresh our thesis, and also just make sure that we stay in touch, that's the genesis of the meeting.
- Suresh Iyer:** Absolutely.
- Rahul Bhatia:** Also one other thing, I am on the road actually. So, I will be on the call, but I might just go off camera, if I am in a public space, so please don't mind that.
- Suresh Iyer:** Yes. So with me I have Mr. Vikram Saha is on my left, he is the deputy MD; and Prashanth Joishy who is the CFO. Both are also here with me.

Kshitij Bhatia:

Yes, hi Vikram, hi Prashanth. So look, Suresh, I guess it will be helpful to understand from your perspective, when we met last, there were a few things, few initiatives we had in mind. And if I recall correctly, technology was a big, big thing. I think you had engaged IBM and went through that project. So just to get a sense of how that's gone in the last. And sorry, first thing I should say is we care less about what happens, in even quarter and this number and that number, we are more long term in our thinking.

So just getting an understanding of how that project went, but also in terms of the space you play, just getting a sense of that as well because A, the space you play; and B, your origination strategy, because I think you were heavily dependent on DSAs. And at some point you have said from, 80%-90% you want to get down to two-thirds of the business from DSAs, and build your own sales force for 20% and maybe do more direct online origination and walking. So just the origination strategy, and then from a market perspective as a geography angle, very heavy on the south and you wanted to go more northwest.

And, there was an Ambala issue. I don't know if it's a newer market issue as a one-off, understanding how that plays out as well as the Product segment you play in, which I still believe is in the INR 20 lakh to INR 40-INR 50 lakh versus the Higher Ticket segment. And then there is also the smaller ticket guys who have higher yields. I know there's a lot of questions, but just understanding the business where you play, and why that makes sense in origination strategy. That might be helpful and we can get to technology later.

Suresh Iyer:

Sure. Yes, so basically I will just start with 2023, when we started out. We also had incidentally, it worked out to be the year when we review our strategy. So we drew up our strategy for FY '28, and the 5-year strategy. So there were basically 4 pillars to the strategy. One was that 73% of our business was Salaried segment, 27% was self-employed.

So we said we are okay to slightly move it down to 65%-35%. So on that journey, we are from 73%-27%, we have come down to 70%-30%. So this gives us a little advantage in first, entering a market where the potential is very good. Two, it's slightly a higher yielding product, because self-employed would normally charge 0.5% or something higher in the market. And we also charge 0.5% point higher in the rate of interest. So that was one thing. So in that we are progressing.

The second was that, including our commercial real estate portion, about 89% was housing. And only 11% was the LAP, the top-up, the lot funding and personal loans and everything. Again, that is a slightly higher yielding product. So we thought that also we can slightly take a risk on that. We are fairly well capitalized and everything. So from 89%-11%, we said we are okay to go up to around, 80%-20%.

So in that journey from 89%, we have brought it down to 86%-14%. So 14% mainly because of our LAP book. And that mainly happened also because this small issue which came up in Karnataka from October, the e-khata issue. So we also had to divert some business to our LAP,

where registration is not required. So that has also helped us. So now this 89%-11% has become 86%-14%. So that is the second journey that we have embarked upon.

The third one, as you also pointed out, was that the DSA concentration was very high. Around 85% incremental business was coming from DSAs in the 4th quarter of FY '23. From there, we have brought it down to 80%. This is one portion where we have not been able to progress to the extent that we would have liked to.

We would have probably, in 2 years would have loved to bring it down to around 75%, but we are at 80%. What we have done is, for that we have initiated our own sales team, because we didn't have any sales team, and it was purely a credit-driven organization. And all our staff were mainly processing the loans that were brought by DSAs or maybe handling some walk-in customers. So, there was no outreach from our side. So that we have initiated and we have started last year with a small team. And it's come out quite well for us, because the team of 39 by end of March in 9 months have been able to contribute about INR 179 crore business, which is almost, by end of March, we were doing almost close to INR 1 crore plus per staff.

Of course, March is, of course, a little more, but usually energy levels are high. But even otherwise, if you look at it, about 80 lakhs per staff was what we think is definitely, we are there. So that is a good start. So we are planning to add another 75 people this year to that particular sales team and take up this thing to at least from 179 to close to 700 plus, or closer to that kind of a range from the sales team.

And also, with this IT, which will come up, we have also envisaged about 10% business coming from digital onboarding, which will happen once the IT gets going. So that will also be the next 2, 3 years, we will be able to see some onboarding coming from digital also. That will further bring down our DSA sourcing a little bit. So at least we have started with out of the 3, from 1 vertical of DSA, we were planning to make it 3.

The second one has also started and we are further enhancing that, supporting that.

And the third one will start next year once our IT project is in place. So that is also there, although we would have loved to be 75%, but we are at 80%. We have brought it down from 85%.

And the 4th element in the strategy was that we want to slightly reduce the geographical concentration, which was like 72% in the southern states and 28% in the other states. So for that, we have at least embarked on a branch expansion. So 2 years we opened 39 branches in FY '24, FY '25, of which there are 27 branches, 13 in the north, and 14 in the west zone. So we are by and large focused on the north and the west, so that we can slightly change the geographical mix. And these branches at least have helped in the sense that last year when we did the business, while both our key southern states, Telangana and Karnataka were slightly affected. The north and the west could contribute, because last year the north zone contributed, had registered a 36% growth in disbursement. And west zone contributed a 15% growth in disbursement. So this also

slightly helped because we were able to open branches, we were able to expand our footprint. And those branches have also contributed almost more than INR 100 crore business from those branches. So that is the kind of the 4 things that we were looking at.

And in terms of the segment, we are still in the INR 25 lakh Average Ticket Size segment. So we do higher ticket loans, but mostly it is in the up to INR 50 lakhs is where our bread and butter is. So INR 15 lakhs to INR 50 lakhs or max 75 lakhs would be where our bread and butter is. And our average ticket size works out to about INR 25 lakhs. So that's roughly, the Mid segment where income levels are about INR 60,000 odd, INR 60,000 to INR 80,000 per month as the family income. So that's the segment we cater to, still predominantly housing and predominantly Salaried segment is where we cater to. That's the brief about it here.

Here in fact, the competition, as you mentioned, one is, of course, the nationalized banks, the large private banks like HDFC, ICICI, Axis. Of course, they have an advantage in the sense that they have a huge force, huge branch network and that is there, but mostly their business comes from the Metro and Tier-1 towns, and mostly limited to the core corporation limit areas, whereas we are having a presence more in the periphery areas, and also we have quite a few branches in the Tier-2, Tier-3 towns also. So basically, this is where we are different from the bigger players.

And of course, then there are these smaller players who are affordable housing players. There the average ticket size is very, very small, it's about INR 10 lakhs-INR 15 lakhs. So again, their USP is the Appraised Income segment where there is no documentary proof of income and they do the appraisal. So again, there the rates start from over INR 12.5 lakhs and all those things. So in terms of rate, again they are not comparable. So we are in that in between sweet spot, where I would say our competition probably would be or our competition mainly is LIC Housing Finance, which also has a very large and is quite competitive in rates.

Second is, Bajaj Finance, which is an NBFC, and now Bajaj Housing Finance also.

And third would be PNB HFL, PNB Housing. These are the 3 where I would say probably Bajaj or LIC might have a slight advantage in rate of interest. PNB is a little lower. It is charging higher actually in terms of rate of interest. So that's the kind of thing. So this mid space is occupied by about these 4 players mainly, that's where we come in.

Kshitij Bhatia:

Right. So Tier-2, Tier-3 salaried, where banks pay less and at tier rates are like 10%, 10.25% where the affordable guys are not playing. And I am assuming you are competing with the affordable housing in the lower ticket, maybe the Self-Employed segments where yields are higher or even that's a space...

Suresh Iyer:

No, there also our rates are better. Obviously, our rates start from around 8.85%, which is to the best housing customer. But roughly you can say our yield would now be around 10%. And the highest rate we would be charging is 12.5%, 13%, not more than that. Even for the non-housing self-employed with a slightly lower CIBIL score, that customer also would be charged about

12.5%, whereas the range starts from 12.5% for the affordable housing companies. So definitely even there we are at an advantage in the Self-Employed segment.

Kshitij Bhatia:

Right. Rahul, did you have anything in competition you wanted to double click on?

Rahul Bhatia:

Yes. I sort of wanted to ask Suresh, like if you roll the clock forward, right, like 3, 4, 5 years, and our thesis is that competitive intensity will go up. What we are not certain about is that where do you think it's going to go up from? Is it the PSUs and the metro and the higher ticket guys trying to go lower? Or is it going to be, these affordable guys trying? Because at some point everyone's going to encroach in everyone else's territory, right? So are you seeing 1 trend or the other that we should be looking out for?

Suresh Iyer:

See actually the bigger players like the banks, I doubt they will be the smaller territory. Because now the government has also been and the RBI now have also come up with guidelines for this co-lending and also for portfolio buyout. So rather than go into that last mile connectivity, they would rather tie up with other lenders for portfolio buyout or things like that, which already is happening quite a bit. So I don't think in terms of the on-ground presence, they would want to come down and do INR 10 lakh, INR 20 lakh, INR 25 lakh kind of ticket size.

But yes, some of the affordable players have been doing well. So they would definitely want to move up the ladder. And, but of course, that all depends on whether they are able to get the rating, get the pricing right. Because right now, all of them are charging at a much higher rate of interest. So whether they are able to get.

And only few of them have been able to breach the INR 15,000 crore book size barrier. So that is also one more thing, because generally they have to work with gearing not more than 4 times. So that also puts a limitation on how much they are able to grow and whether they are able to maintain that kind of ROE and all those things. So that is one area, but still, some of them are doing quite well. So there is a chance that they might want to move up the ladder. That is definitely a possibility, yes.

Rahul Bhatia:

So just this 4 times gearing, is that because of the business model or is that something that is structurally sort of imposed on them because our gearing is very different, right? So why is that?

Suresh Iyer:

So 1 is because, we are a AAA-rated company. So obviously, that allows only LIC and us, the 2 of us are having kind of a AAA rating, where we are also able to have a gearing of about 8 times. In fact, ours it has come down a little bit. It's a little below 7. But up to 8 times, even the rating agencies are comfortable with the gearing of 8 times. But if you have AA kind of a rating, then I think they are also not comfortable. The rating agencies also would not want to have a higher gearing. So that's one of the reasons why they have to keep coming to the market or they have to keep selling their portfolio to keep it within that range.

Rahul Bhatia:

Okay. And then the other thing I wanted to check was that this strategy from DSA to sort of direct sales or your own sales force, how have you thought about sort of the math on that? Like, is that net accretive? Is that going to be dilutive for some point and then it becomes accretive? How did you think about that part?

Suresh Iyer:

Yes, sure. You are right. Actually, our average payout or what we are giving on a blended cost of the acquisition from the DSA channel is about 0.43% to 0.45%. Okay. So roughly, if you look at it, if you are taking people on roll or we are taking our own staff, then obviously there's a fixed cost or fixed element to the salary that we pay to them. So to kind of break even or to see that they are able to meet or they are able to cover the salary cost that we are doing and still see that the cost doesn't exceed that, I think we will have to reach or the average productivity will have to be definitely around INR 75 to INR 80 lakhs per staff, which initially with a small team we have been able to reach. Obviously, as we grow, we will have to be careful that we are not doing less. The average ticket or the average business, if it goes below that, then the team is not even actually paying for the salaries that the fixed cost will be there.

So initially, if we try to run too fast or we try to shore up the team very fast, then there will be a much higher fixed cost element. And there will be some 6 to 9 months before they are able to kind of reach that level. So last year, what we observed was, while we have a blended team of, it's a small team, but we still have a blend where some of them are in the Tier-2 towns, Tier-3 towns, and some of them are in the metro and Tier-1 towns. So in the Tier-1 town and metro guys could actually reach more than 1 crore, but the smaller guys could not reach that.

So now, obviously, it doesn't make sense for us to now put more people in the smaller towns, because then they're not able to get that kind of amount of business whereby they can even cover up for their own salary costs. So we would now be putting more people, obviously, in the Tier-1 towns and metro towns only and doing this business. So that at least in 6 to 9 months, we are able to at least cover up for the salary costs. And we will, obviously, 75 is a number, the natural question would be why 75, why not 200? So obviously, the reason is that with 75, the fixed cost will be quite a bit. And so once that is there, we will be able to add more, so that in one big chunk, the cost doesn't go up too much, because it will take 6 to 9 months.

Rahul Bhatia:

Right. Right, so you think of it in terms of disbursement per employee rather than sort of AUM per employee. That's not the right...

Suresh Iyer:

No initially, disbursement per employee, yes. Because otherwise, the same cost we would have been able to pay out to the DSA also, we would have been paying 0.43, 0.45. So we are looking at from the disbursement point of view. Of course, by the time they build an AUM, it is there. But the churn in that sales team is also generally high. So effectively, each person has to earn for themselves. Because the portfolio would have been built by somebody else.

Rahul Bhatia:

Right, right. Sorry. How much is the typical churn in the sales team, when it comes to this sort of sector?

Suresh Iyer:

So here, that's an interesting thing we have done or at least we have tried something different in the sense that, like most other players, when they have the sales team, what they do is, it's a direct sales team or direct marketing executives or whatever their DME or DST they call it. So they take for a very small salary of INR 15,000 to INR 18,000 fixed, and then they are incentivized. So what happens is once in a month or once in 4-5 months sometimes there's a bad month or something, and they don't get enough to kind of earn beyond the INR 15,000, INR 18,000. So, that those months what happens usually they find it difficult to run the house and all those things. So, that's why the churn is very high.

We observed that the minimum is 60%, sometimes it goes as high as 100% also in for that particular team which is just at INR 15,000, INR 18,000. So, what we have done is we have taken them on the roll. So, at least they would be having a salary of INR30,000 to INR 35,000 per month, which is the basic at least they can run the house, and then we incentivize them at a slightly higher benchmark. So, basically if the benchmark starts at INR 25 lakh for the other players, we would benchmark it or start some incentivization after INR 60 lakhs or something like that, because we are also paying a higher fixed cost. And therefore, I expect would be a little less, although it's too early to talk about it. But roughly in the market it is about 60% is the churn in this particular sales team.

Rahul Bhatia:

Okay, understood. That's all what I wanted to ask you.

Kshitij Bhatia:

Suresh, one more question on the channel. It's early days for this book, but how are you seeing the quality of the direct sales book versus the DSA book, both in terms of credit and also the BT characteristics, is it more stable?

Suresh Iyer:

See, BT I am assuming would be too early, but that is one of the reasons. And basically there are 2 reasons why we also felt strongly that we must have our own sales team. One was that when it's a DSA team, we don't have the control on what is the kind of customer they are going to bring to us. So, normally we don't have corporate DSAs, we have retail connectors or DSAs who are like connectors. So they would also be employed or they will also be associated with other companies. So, if the payout there is higher, they would obviously want to put the case there first. So, only those cases where slightly 1 or 2 other players have rejected might come to us.

So, that is a slight risk of the inferior quality, and we don't have the control on what kind of customer base we want to generally target. So, that was 1 important thing and second of course as I said is normally these DSAs they churn the book after 2 years or 3 years, because they have to again earn out of the same customer. So, that slight risk is there in case of a DSA, it's a proven thing in the market.

So, that's why we said if we have our own sales team, the stickiness will be better, and it's just been about 9 months, so it's not very thing. But another thing in the DSA channel is we have

also done APF tie-ups. So, earlier we were not having builder tie-ups where we would approve the projects and get business from there.

So, these marketing executive or sales executives are also sourcing, are also doing tie-ups with the builders and picking up the cases from there. So, there you know the quality is a little better, because the kind of builders also whom we are tying up with, they are slightly better in quality, Cat B builders. So, we are able to get a slightly better ticket size and also better quality of customers. So, that's the whole idea that our team will be able to actually select the kind of customer we want to become.

Kshitij Bhatia: Right. And one bookkeeping question, this 0.43% cost for DSA is that upfronted or is that amortized over the actual tender?

Suresh Iyer: No. It's paid out upfront only as per the disbursement. So, if it's a say INR 30 lakh case and the first disbursement is INR 15 lakhs, so obviously that portion will be paid accordingly. However, in the case of accounting it is amortized, because we follow this IND AS. So, there as per this thing calculation it is amortized. In the books it is amortized, but otherwise it paid upfront to DSAs.

Kshitij Bhatia: And then the fee you have earned on the customer is that also amortized on the...

Suresh Iyer: Yes, the income also, the processing fee is also amortized. Both sides it is amortized.

Kshitij Bhatia: Both sides, so that matches. And that's over the actual life of the loan and based on...

Suresh Iyer: Yes, yes both sides it is as per the tenure of the loan.

Kshitij Bhatia: All right. Tenure or actual life? So, when there is a BT you kind of accelerate both or?

Suresh Iyer: No. So, obviously, when it is booked it is amortized over the tenure of the loan, and if there is a BT then obviously the entire balance cost is taken as expense or income in that particular year.

Kshitij Bhatia: Got it. Perfect. Now this is helpful. Sorry, go ahead Suresh.

Suresh Iyer: Yes, I think the other point you mentioned was about the IT portion. So, there are 2 steps of the IT upgradation that we did. One was that we had our IT system when I took charge, that was a monolithic platform, only LOS, LMS with third-party GL which was there. And it had a lot of limitations in the sense that even API integrations were not supported by that particular LOS, LMS version. So, we upgraded that, and in the last 18 months we have kind of added all the third-party vendor solutions that we wanted including our Karza tie-up for our PAN verification, Aadhaar verification, for our ITR from the portal or bank statement, all those things. And we have also done something like we know this penny drop facility and all those things for customer validation.

So basically now with this upgradation at least we have got everything on the IT side from the onboarding, right up to the time the account is closed and everything. But still we are going with this IBM tie up, wherein we are going to completely revamp our entire package.

So IBM is bringing in its new partner for LOS, LMS, DMS. It also has a treasury and banking and LCR and ALM module. We also have a DMS which is right now also there, but it is a little patchy with multiple vendors. Right now it will be a single vendor, NUGEN is coming for DMS. So, it's a complete new revamp which will happen and get implemented. That will give us a complete 1 level higher in terms of the IT capabilities than what we are able to have right now.

Kshitij Bhatia: And how long is that, like is there any timelines that you can share on that project, Suresh?

Suresh Iyer: Sure, sure. So, the project has already commenced and right now the Fit Gap analysis and all those for data migration from the old vendor, so all those things have been undertaken. And the project is basically into 2 parts. So, we have our ALM and all those things, which do not affect the retail portion to it. Those are scheduled to get implemented in the month of August '25. And the LOS, LMS and DMS and everything will get implemented in November '25.

So, by December, we will be completely out of this. But the cost implication of this particular IT sector will start kicking in from FY '27. Because all those things during this period up to December '25 as well as the 3 month hand holding period will be capitalized. And from FY '27 it will come into the books. So, at that time the cost will slightly go up, because of the IT cost.

Kshitij Bhatia: Right. And you are using NUGEN for document management, also for loan management as well? Is that a different process?

Suresh Iyer: No, LOS, LMS we are having Pennant. The Pennant which is right now operational in Bajaj and the LIC Housing Finance.

Kshitij Bhatia: Got it. This is great. And then for the direct origination PC mentioned, is that a different solution as well or is that APIs to the system?

Suresh Iyer: That's going to come with this only.

Kshitij Bhatia: Okay. Understood. I have 1, this is helpful on technology. I think this is great that it's finally going to happen. It's probably going to make a big change starting next year. On the credit, Suresh, so we have seen, not in Housing so far, but we have seen other segments and you have seen it as well. Credit Cards, Microfinance, just going through cycles. Now Housing has worked well in India, but it has seen a cycle in other markets as you would be well aware. 2008 in the U.S. was a big cycle. So how do you think about the macro environment and what red flags do you track that Housing is getting overheated, if any, right, in terms of being cautious in the market?

Suresh Iyer:

See actually, in terms of Housing, the segment, since we are mainly into the First-Time Homebuyer segment, that's probably the last that will get affected if at all, because the attachment to the house is very much there. And in fact, because we have less of a LAP book, therefore the risk is a little less for us because particularly in the LAP segment, the delinquency slightly goes up, because the end use of the money is for speculation or for consumption or something like that. So in our case, since it's a first-time homebuyer, and also because we have a huge amount of housing loan portfolio, unlike others where, LAP is much higher, therefore it's a little better for us.

But one thing is the regulator for the housing finance industry, they've already started highlighting a couple of points where they want the lenders to be a little more careful. So one of the things that they came up with was a PBC criteria. So basically it's a Primary Business Criteria. A lot of housing finance companies who have the housing finance license were also doing more of LAP, where the end use was not for dwelling unit or not for basically house creation. So that they have put a cap that at least 60% of the business has to be for housing. So some of the companies who already had a much higher exposure are having to bring it down, either by sale of the Non-Housing book or by stopping that Non-Housing portfolio so that they can shore up the Housing piece. So that is one thing.

Second, the regulator has also been highlighting of late that they are asking all of us to be cautious about the takeover loans. Because normally takeover loans, the business happens with a takeover plus top up. So the top up means you are actually valuing the same property with a higher value. So they have been cautioning a little bit on the valuation bubble, so that there is no valuation, because the same property within a matter of 2 years, suddenly gets 20 lakh higher valuation and you end up giving more loan. So that also the regulator has been highlighting.

And third is, also the classification of loans. So now, regulator, many of the properties which are not housing are being classified as housing. So the regulator has already been highlighting these points so that they do not want the industry to have some issues later on. So these are positive things for the industry. It may have a little bit of pain initially, but I think in the long run it will help. So these are some of the things which are there.

So I believe, the Housing as of now, if the lending and the regulator is doing all those things, then maybe we will be a little more cushioned with in the times to come. So I believe that should not be a problem.

Kshitij Bhatia:

Right.

Rahul Bhatia:

Are you building, since you are saying the regulator is getting strict, and you are in a much better position. Suresh, are you seeing an inflow of these LAP deals that you can do instead of sourcing them, just buying them in the market in some sense or not really?

Suresh Iyer: So LAP, definitely, yes, there is a huge market, but we have always been cautious. So today also, we have inched up from 5% to 6%, it's not a very large jump. But that also we have done mainly because, of course, we said we can increase a little bit as part of the strategy, but also because this Karnataka issue happened, so we have slightly pushed it a little more. But otherwise, we are very careful, and I don't think we would like to touch 10% in terms of the LAP book, at least not in the near future, at least.

Kshitij Bhatia: And what's the spread you see between the LAP and the housing book on average?

Suresh Iyer: We are charging 0.5% higher.

Kshitij Bhatia: Per LAP?

Suresh Iyer: Yes.

Kshitij Bhatia: And the credit cost spread is that, does that 0.5% justify that?

Suresh Iyer: As of now, yes, because our interest rate policy, we do factor in the credit CRP, we do credit risk premium also, we are attaching based on the credit cost that is there for each product. So we have a separate CRP for housing, we have a separate CRP for non-housing. Within that also, we have a separate CRP for housing salaried and, housing self-employed. Same way non-housing salaried, non-housing self-employed. So, that credit cost accordingly is factored in, so that 0.5% actually takes care as per the present rate.

Kshitij Bhatia: Right. If it's a higher, ROE business or not in your view, right? Because, like, why cap it at 10% if it's interesting?

Suresh Iyer: No, so right now we have done it that way, but traditionally we have been a little more cautious in terms of lending, because we are very careful that our cross-NPAs are also within control. And right now one of the advantage is our credit cost, we have been guiding for and have been, meeting also the guidance of 15 bps. Last year also we said the guidance was 15 bps from credit cost, but excluding the management overlay that we did over and above that, the credit cost was just about 13 bps. So we are within that guidance also.

Kshitij Bhatia: No, it's perfect. And just since we are on this topic of credit, Suresh, if you can just help us understand high level of credit policy, right? Your loan to value ratio you do and just understand, are you more conservative? And your credit cost has been amazing, right? Are you more conservative compared to the market or what drives that? What are the key elements of the policy that you think are sacrosanct?

Suresh Iyer: See, first of all, the main reason I would say is that, for the kind of pricing that we have, the main issue is that we mainly cater to the only documented income customers. So even in the salaried, obviously the salary credit has to come in the bank account. That is one of the major benefits of

our policy. So we may be losing a little bit of a market in the sense that those who are getting cash salary, those who are working in private sector, but not getting salary in that particular... So those kinds of sectors we have or the self-employed and all, we are not catering to that. Even in the Self-Employed segment, our customers would be filing IT returns. So we are not going to those customers who are not filing IT returns or those who are filing a much lower IT return and their actual income is much higher.

So there are products in the market like average bank balance product or multiplier product. So if it's a doctor, then you will take 3 times of what is documented as the actual income and consider a loan. So those kind of things, we are not doing all those things. So I think that is one of our USPs.

In terms of the other LTV that you mentioned, of course, we are very careful that we go as exactly as per the regulation, which is that we consider the document value or in case of LAP also we consider the realizable value. So we don't go by the market value, because market value can vary, and can be inflated and all.

So this also is sometimes slightly disadvantageous in the sense that when customers are forced by competition, they are offered a higher ticket, but sometimes we are not able to match the kind of loan that they are offering. Because as per our LTV standards, we are not able to be, first of all, to get that kind of a value to be able to offer that kind of a loan. And otherwise our LTVs are that up to INR 30 lakhs anyway, it is up to 90% is allowed, but I don't think we have many loans where we go up to 90%.

And otherwise at the branch level, our sanctioning power is only up to 80%. So we don't go beyond 80% sanctioning power at the branch. So for that, if it has to be slightly higher, then they have to come up.

Kshitij Bhatia:

And what percent come up, Suresh?

Suresh Iyer:

So if the LTV is higher, then it has to go to a higher level for sanctioning and all.

Kshitij Bhatia:

I am trying to understand what percent is done at the branch and what percent gets elevated to..., roughly?

Suresh Iyer:

Right now, as such about 75% to 80% gets done at the branch and the remaining comes at the higher level. So we also have our branches, then we have the zonal office, and then the head office. So the zonal office also is there, so Karnataka entirely is one zone, we have a zonal office, and like that we have 6 zones basically.

Kshitij Bhatia:

Right. So about 75% to 80% are just through policy and then exceptions come up, whether it's because of LTV or ticket size or whatever the exceptions might be.

Suresh Iyer: Exactly. Exactly. Exactly.

Kshitij Bhatia: Understood. Yes. One more question on this interest rate cycle. We have seen the drop in rates. Now, I know typically you will pass on the drop once you get it on your lending side. The other thing we have known through past cycles is the BT behavior increases right in these cycles. So can you give us some color on how you are trying to think through this cycle, both in terms of managing spreads and just managing BT? Because there's 2 legs. And if you don't pass on, the BT can go up, and if you pass on quickly, then the spreads go down. So how do you balance that?

Suresh Iyer: So we are particular that we will pass on only after the rates actually are experienced on our liability side. So right now we had the first cycle in February where 25 bps was reduced and the repo rate went down by 25 bps. But we experienced by end of March only 10 bps on our books. So effectively we reduced, we passed only 10 bps to our existing and new customers in effective May.

In case of the second rate cut which has happened in April, we are likely to get the entire benefit by June. So in July again we will pass on that benefit also to our customer. So that way spread is not going to be impacted.

As for BT out, as of now the risk is a little less, because not many players other than LIC has reduced the rate on existing customers and new customers on the private side. Of course banks have done it, and that also PSU banks have done it, not all the private sector banks have done it. Because this is the first time that banks are also experiencing this rate cut cycle after the EBLR concept has been mandated for them. So their margins are also coming under pressure like most banks now are having a margin less than 3. Even SBI said their margins are coming below 3.

So basically other banks like Bajaj or PNB Housing and all, they have not cut their rates. So therefore the BT pressure is not as much on us as of now. Of course it is too early. If another 50 basis point comes, then definitely we will have to do it. But by that time we will be also passing on our second rate cut which I expect around 10-15 bps, another 10-15 bps we will be able to pass on somewhere in July to our customers.

Kshitij Bhatia: Perfect. Rahul, did you have any other questions?

Rahul Bhatia: No, this is very helpful. This is really all I was looking for.

Kshitij Bhatia: Yes, very helpful Suresh. Nice to meet you again. We just wanted a refresh on the business, and you are doing a terrific job. So, congratulations. There are shareholders and support of shareholders. So, all the best.

Suresh Iyer: Thanks so much.



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Kshitij Bhatia:

Thank you.