

Transcript of Fidelity

Management:

The segment is of the IT, because everybody is very natural to ask that you are in Bangalore and Hyderabad, so it will be a very large IT segment. But our IT customers is just about 6% and government employment, which is central and state government is only about 14%. So 51% of our salaried segment basically is the private sector employment who would be either in medium time, medium-term, medium-size, mid-sized corporates or even the smaller local corporates things like that. That would be our segment of customers in the salaried segment.

Now since we are basically that average ticket size is around INR24 lakhs, so we are roughly you can say, anywhere between INR15 lakhs to INR50 lakhs is our segment. Now at INR24 lakhs we are actually a little below the radar of you know the PSU and large size banks, like, if you say, HDFC or SBI or ICICI or Axis, they all have a ticket size segment of INR35 lakhs, INR40 lakhs and so on. So they are mostly in the bigger ticket size customers.

And if say, for example, a customer in a Bangalore or Hyderabad or Mumbai would be wanting a larger size property or would be tying up with a Cat A builder then invariably that customer would be going to these four big banks and not to us. But our Category B builders who are there, who are roughly coming out of the mid-sized segment properties, their customers would be coming to us. So when we also target our APF products, APF tie ups, we say, we target these Cat B, Cat C developers only who are primarily making building houses in the segment that we cater to.

And so the big names if you see we would not have tied up much. We would be having a couple of property tie ups with say a Godrej for one of their INR60 lakhs, INR70 lakhs properties to BHK small houses, things like that but not for the major ones that they are coming up in the big cities. So we don't have a prestige or a Puravankara or a Brigade or an Embassy or somebody as a tie up with us, okay. So this is basically the segment.

Now who is our competition? Primarily it would be LIC, because they are also roughly in the same segment and then it would be PNB, HFL and it would be Bajaj, okay. Bajaj mainly was a bigger competition for us a little earlier, because they would pick up our INR20 lakhs, INR25 lakhs loans and then give them a good INR15 lakhs, INR20 lakhs top-up, because their average ticket size is also INR40 lakhs. So they also would give them a look at our customer, our credit, our track record of our customers, post those customers and give them a top-up.

But now what happens is, in the last six months to eight months back when the regulator came out with this primary business criteria guideline that you have to have at least 60% has to be core housing. So since then we are seeing that Bajaj has slowed down, because now they cannot offer LAP and they have already crossed that limit and their housing is much below their 60%. So they are not aggressively doing it. But LIC is one of them which is doing it.

In terms of the rate of interest, Bajaj and LIC were definitely having a better rate. But PNB is having a higher rate. It is about 25 bps to 30 bps higher than us. And so basically you would say these are the three major players who are the competition for us. We don't try to also compete with the bigger banks and we try to generally lie a little below their radar so that we don't have

a direct competition. Of course, we would have two, three cases going to the banks also. But mostly it is to these, if I have to look at the takeovers, India would be to LIC, PNB and Bajaj only. Mostly.

Questioner: You don't see Aditya Birla or Tirumala in the competition, not really?

Management: Not. They don't have that kind of rate that they are all offering a much higher rate of interest. So my customer who was already paying say 9.75% or 10% would not get a lower rate from them. So there is no incentive for them to move up. Of course, some cases do go, like for example, even [Ava 00:04:07] sometimes picks up a loan, but what happens is, they give a much higher top-up. So the customer and we can't give that kind of a top-up, because it doesn't fit into our norms. So they take a call on the property valuation, which we don't, because we are a little more conservative in our appraisal.

Questioner: When you say your competition is Bajaj and LIC, I mean, I look at their spreads. I look at your spreads. We somehow managed to run a book at a tight 2.5% spreads for a fairly long period of time. Their spreads are obviously much lower. And this is given the fact that we have only a 6% LAP book, 6.5% LAP book, a smaller LAP book.

So the bulk of what we are making essentially is out of plain vanilla housing. The spreads I would presume 2%-ish, 220 sort of spreads we make on a plain housing. But somehow they don't seem to report that number. So there is obviously some differential in the way we are able to account for 220, 230 on plain vanilla housing while they seem to be running at sub 2% spreads.

Management: Correct.

Questioner: So how do we understand that?

Management: See I would only say that we are the ones who take the risk on the outskirts of the city, the developing areas where the housing comes in. Some of the times the infrastructure takes a little longer to come there. But we know that the construction is happening. It could be a little bit on the panchayat approvals. It could be a little bit on the new developing areas where we have individual houses getting constructed. But we know that these areas are developing and therefore we are able to go to these places.

And I would say it would be kind of the must-mover to many other areas. So that is one of the things that I would say. Because what -- our pricing is that our main pricing for a housing loan customer, salaried segment with a CIBIL score of more than 775 would be say, for example, 8.70% today. But then if the customer is a self-employed, they have to pay 0.5 percentage higher.

If it is a panchayat property or slightly rural property, then a 0.25% higher. If it is a non-housing category, a further 0.5 percentage higher. So even if in housing if you say it is a self-employed customer who is taking a property in a slightly interior area like a panchayat area, then it would be not 8.70%, but it will be close to 9.50% that way.

Questioner: Okay. See, for example, I mean, LIC is now offering even at 7.50%, they have cut rates at 7.50%. Obviously they are doing on a blended basis at 8.20%. So they are still doing plain vanilla

housing, still lower. So even plain vanilla you are offering essentially at 8.70% whereas they may be sort of at 8.10%, 8.20%. There still seems to be some difference.

Management:

See that is correct. In fact, if you see LIC only off late has started offering these aggressive rates on housing, because earlier they had a -- they used to have a decent targeting on housing and growth used to come from the developer portfolio. But after they stopped developer, they need to obviously bring the growth to the retail only. So that is why they have started cutting rates and it has started hurting their margins also if you see for LIC.

But what is happening is they also have a network, I mean, that is what I hear that, their DSA book or their connectors portfolio is slightly, they need to work on that, some issues there. So that is why in spite of offering this kind of a rate, it is not that they always take it.

Questioner:

Got it. Got it. Thanks. From your perspective, can you remind us as to why, as of now you are thinking of doing things slightly, higher ticket sizes and that is a sort of articulated strategy and how do you sort of think of the offsets to this, if you want to retain your spreads at 2.5%?

Management:

See, there are two reasons why we are looking at slightly increasing the ticket size. One of course is that, the segment -- some of the segments like the below INR10 lakhs where we used to have a sizable amount of loans happening, INR10 lakhs to INR20 lakhs where also we had a decent portion of our loans happening. In fact, nowadays the kind of properties for a decent two BHK house, you don't get a property for less than INR30 lakhs, INR35 lakhs.

Even if you go to a Tier 1 town, like if you go to a place like Vishakhapatnam, the property -- average two BHK house comes to around INR40 lakh. If you go to a place like, you go to Ujjain or you go to a place like Hapur, you go to a place like Bikaner, there also you are getting property values where INR30 lakhs, INR40 lakhs is for a proper house.

Now, if it is an incremental house where you are only got something and you are only funding one extra room that you are constructing, then it is a different thing. You may have a INR8 lakhs, INR10 lakhs loan requirement. But otherwise, for a INR30 lakhs, INR40 lakhs loan, it is not -- it doesn't make sense that you are still doing less than INR10 lakhs. So, then if you are still doing less than INR10 lakhs, means you are probably going either very far from town and picking up very rural properties which is also not a very good thing in case of this thing.

And second thing is, if you are funding this kind of properties, then the reject loans and that is what is likely to come. So, therefore, we said that is one thing. Because anyway, the property values have started -- have been going up there is a normal 5% to 7% inflationary increase in the property values. So, that is something which we are looking at.

And even otherwise, what we moved is from about INR20 lakhs, INR22 lakhs to around INR24 lakhs today. So, it is just about INR2 lakhs and 10% increase in two years' time is actually, you can say, just an inflationary increase only. The only thing is, we have also opened up to, because of our APF tie ups, if you -- you would see in our presentation that our more than INR30 lakhs segment has also slightly grown -- gone up. That is because we are now getting, we are also present in the city, so we are also getting a lot of enquiries, visibility has increased. So, that is why we are getting slightly higher ticket loans also. So, that is the whole reason.

And how we are going to offset is that in '23, when we sat down to draw up a strategy, Vision 2028, we had four pillars to the strategy. One was that we were at that point in time, 73% was salaried segment and 27% was self-employed. We said by FY '28, we are open to change the mix to 65-35. And in that journey, we have already reached a 70-30. So, today 70% is salaried, 30% is self-employed. So, we have already moved that 3%. And self-employed means, as I said, we are able to charge a little 0.5 percentage higher. So, that is one thing.

The second pillar of our strategy was that, we had 89% of our book was housing, including CRE, okay, and only 11% was non-housing. We said that by FY '28, we are open to changing it up to 80-20, which will still be way higher than the regulatory requirement of 60% under PBC. So, that 20% or the 9% incremental that we can do in terms of our non-housing book, that is LAP and top-up loans and everything, we will again start earning a little more, which we can offset if we are slightly giving a better pricing on the core housing. So, that was the second thing.

The third was that we wanted to reduce our or rather increase our branches and geographical presence in the non-Southern region so that, that 72% of the housing or business was coming from the South and only 28% was coming from the rest of India. So, we wanted to slightly move it towards 60-40. So, from our 72%, I think, now we are slightly, we are definitely below 70%. But now the way the North and the West and all are growing, because both these zones have been consistently growing for the last 15 months to 18 months.

So, that way we are slightly, we are -- our expansion is also happening mostly in the North and in the West only, the branch expansion. So, because of that we will get an impact going forward and we will slowly be able to change this mix from a 72-28 to a 60-40. So, that is the third pillar.

And the fourth one was that we wanted to develop our own sourcing channel. We were very heavily reliant on a DSA channel. 85% of our business was coming through the DSA channel in Q4 FY '23. So, we said we want to reduce it and at least have a 60% from a DSA channel. The remaining 40% will be through direct sourcing or through digital onboarding. So, that way we said we wanted to develop our own sales team. We started that last year.

And last year the sales team was a small team of 38 people -- 39 people. We could get about INR170 crores of business. This year the same team, but of course, we are increasing the strength. We are targeting somewhere around INR750 plus crores is what we want to get from the direct sourcing team. So, slowly we are trying to build an alternate channel also. So, now it has come down from an 85% to a 79%. So, there also we want to eventually bring it down to 60%. These are the kind of four pillars that we wanted to look at.

So, we are still well within our 60% or way beyond our 60% PBC criteria. We will still be predominantly focusing on housing and a salaried segment only. But still with a little bit of scope that we had, we will be able to slightly improve our spread or at least ensure that, we are able to offset what we have to go in, if we move a little up the ladder.

Questioner:

Why would you want to change the sourcing mix this way? I mean, it sort of -- from a margin perspective, it helps showing up better margin, but it has an associated cost with it if it comes to the on-road people. How do you just sort of think of the trade-offs between higher share of DSA

versus lower share of DSA on overall profitability? And just from a sustainability perspective also.

Management:

Sure. See, in terms of the mix, the DSA sourcing wild plays are very stable and it has worked for us. But the DSAs, they have -- there is a slight tendency, this is a proven kind of a thing that DSAs also tend to slightly move their loans after two years to three years because of the same loans only they have to move. Every time they move, that is when they will earn out of it. So, there is a [BTO 00:15:08] percentage slightly remains a little higher in case of a DSA sourced business, whereas the stickiness of a self-sourced business is a little better. That is one thing.

Second thing is in terms of commercials also, I mean, if you are able to manage your productivity of the sales team, then you can actually have a slightly better ROA. It can help you -- it can be ROA supportive, because today we are paying about 0.5% to our DSAs on an average. 0.43% to, it is approximately, it comes to around 0.45% to 0.5% is what we are paying. So, if the sales team that we are onboarding and if we are able to maintain it, and the productivity levels are higher, then definitely we can have a lower -- we can have a -- it can be better for us.

It will be lower than the -- so that is why we, what we did was we started with a small pilot and two zones only, North Zone and Tamil Nadu, where we took this sales team, only a small team of 39 people last year and we could see that, within a matter of six months, we were able to ramp up the productivity of the sales team, wherein if you see the Q4, they were able to bring about almost close to INR180 lakhs plus of business per sales staff per month. If you see the Q4, that is Jan, Feb, March.

So, that means, if they continue to do it and if they are able to maintain that kind of a productivity level, then definitely we will be able to, it will be better for us to, it will be less outflow as compared to what we would have otherwise given to our DSA. So, of course, we have to have, look at what kind of grade we pick up. So, we will have to pick up all the sales team purely in the lowest grade, which is the officer grade, the entry level.

Obviously, we can't have too many managers or high-end people in the sales team. Otherwise, their productivity requirement will be much higher. So, those alignments, we have kind of done our study and we are now getting all the people mostly in the officer grade, where our monthly salary payout is something around INR35,000 or something. So, if they are doing INR80 lakhs per month as the average business, then what we will be paying out to them will be lower than what we would have otherwise paid to our DSA. Of course, the fact remains that...

Questioner:

I was just asking how do you assess...

Management:

Yes, please.

Questioner:

No. No. Go ahead. Sorry.

Management:

I was just saying that, in case of our DSA, the only thing is, the other thing is, see, DSAs would give you the business that they want to give to you. So, if they have a, somebody suddenly comes with a scheme where they are paying a higher payout, they would divert the business there, because they are getting a higher payout there.

So, here we don't have a choice of the customer selection. Whereas, if it is our own team, we can do our customer selection ourselves. We can decide which customer, which project, which kind of a segment, which salary bracket we want to target and which locations we want to focus on. That was the additional point.

Questioner: Could you help us understand how you assess self-employed customers? Do you do those only with tax returns? What is -- I mean, where is the differentiation of our self-employed maybe versus relative to some of the other competition stuff? Like cash salary components, do we look at some stuff like that? But just maybe get some sense around that.

Management: Sure. See, we mostly are doing only those cases where we have, customers are filing IT returns. We are not presently doing any loan where it is without IT returns. There is only one small product that we offer called, NIP, which is basically the cash salary that you are mentioning. But that is a very small 2% to 3% only of our book which is there. Most of our segment, if you look at it, is the ones where they are filing IT returns.

So, there is appraised income segment, surrogate income category, average bank balance and all those kind of things we are not doing. It is only now that we are slightly increasing our self-employed segment. And there is a government push also that, the government has been pushing that, customers who are having UPI transactions, you should consider.

In fact, the government has also been promoting that kind of a thing. So, we have just launched a product now where we will be looking at the last two years of UPI transactions to see what is the monthly loan. So, basically this would be for customers who are like, having all that payments coming through UPI.

So, there is a proof also. And so, they may not be filing returns, but at least the proof of two years is available in the bank that, this much amount of transactions and sales have happened. So, based on that, we are just launching a product with a small exposure cap we will be having. But otherwise, predominantly our self-employed is those customers who are filing IT returns.

And additionally, what we have done is, in our product, we have now introduced a control whereby, it is not the, like, we had an issue in some of the places earlier way back in 2021, where in one of the brands, the customer, somebody had provided a CA certified tax returns which were not tallying, which were all fabricated.

So, what we have done is, now we have introduced a check where the IT returns based on an OTP transact, OTP proof or authentication is directly downloaded from the ITR portal. So, that risk also we have eliminated in that kind of a -- through our tie-up with Karza.

Questioner: Okay. Sir, can you please remind us what these top-up loans which you have, which is -- what are these loans and who are the customers who give these loans to?

Management: See, top-up loans is the customers who are already our existing customers. Say, after one year, minimum one year, they have to have a track record and the property. We don't give a top-up loan before one year. So, after one year, say for example, they want to do something to the house or improvement or an extension.

Not necessarily an extension, but at least some repair, they want to do some, then we give a top-up loan. They may want to redo their kitchen. They may want to do some plastering work and stuff like that. We do give a top-up loan. So, this is on the existing property provided there is a sufficient LTV coverage. And then we may, so mostly these are the existing customers only, top-up loans.

Questioner: And you charge more on this?

Management: Yes. Yes. They are non-housing category and so we do charge a higher percentage. It's almost 1 percentage higher.

Questioner: And this would be -- what duration would these loans be?

Management: This would be long-term. I mean, we would give them long-term loans.

Questioner: Okay. Maybe we just move to disbursements and just to get some sense around that.

Management: Sure.

Questioner: I think one of the challenges with the form has been that that disbursement number has been stuck at INR85 billion for quite some time. I mean, I think the year when you came in, first, obviously, there were some, you had to get the systems and processes right. So, you slowed it down. There were some frauds detected, which you sort of slowed down.

Management: Correct.

Questioner: Second, you had issues around Karnataka and Telangana. But maybe just take us through the granular breakup of the states. And when can we sort of start breaking out of this sort of INR8,500 crores? Again, the point being that we have done only INR2,000 crores, again, in the first quarter. So, just maybe just take us through maybe some of the historicals and then granular breakup and...

Management: Sure.

Questioner: Why should it sort of improve going ahead?

Management: Okay. Now, if I just go back in time, I mean, we had, if you see our 2020, FY '20, FY '19, we had just about INR5,200 crores of disbursement. Then came the COVID year of FY '22, FY '21, sorry. At that time, FY '21, we again had just about INR4,000 crores, in fact, our business dropped. So, at that time, we were roughly in the INR5,000 crores kind of a range only at that point in time.

Then in FY '22, suddenly there was a jump from a INR4,200 crores to a INR8,900 crores. And that was a very fast kind of a jump. And then, of course, September, we had the CEO exit also. And then things came out and immediately after that jump from INR4,200 crores to INR8,900 crores is when Canara Bank also had a bit of a concern on the quality and all. They stepped in. They also carried out an audit of all the branches and some controls were introduced.

And so, obviously, that INR4,200 crores to INR8,900 crores was a jump which was difficult to kind of, you see. And then, of course, that very fast run in one year's time of more than doubling up the business hurt us and we had some frauds and a lot of control issues were there. So, in March '23, when I joined, we had to kind of, by that time, the business had completely slowed down. And we kind of were slowing down a lot of audits was carried out by Canara Bank of all the branches. And then we kind of decided to slow down, review the processes.

So, basically, you have to look at it that, that INR8,900 crores was, I would say, probably an aberration, because that was the time when there was too much pressure for top line growth without the necessary controls. But anyway, having said that, we have now reached a point where we are doing INR8,100 crores is what we did in FY '24. FY '25, we have increased it to INR8,500 crores, almost INR8,600 crores.

And this year, again, if you look at it granular, if I have to break it up, we have now six zones, basically. North zone, which comprises our Punjab, Haryana, Delhi, UP, Uttaranchal and Himachal. So, that zone has been consistently now growing for the last one and a half years now. Same way, then the next is west zone, which is Rajasthan, Gujarat, MP and Maharashtra.

Again, that for the last two years have been consistently almost one and a half years growing at about 15%, okay. And Tamil Nadu is another zone, which is like Tamil Nadu, Kerala and Pondicherry, which again has been growing last two years, almost 15 months -- 15 months to 18 months, one and a half years. It's been growing at around 30% plus. So, these are the zones which are doing well.

East zone, for the first year was flat, but last year that -- and this year onwards, that has also started picking up. So, East basically comprises of our Andhra Pradesh and the states of Chhattisgarh, Orissa, Bihar and West Bengal. So, that also is now growing, has started -- has turned around and is growing. The only problem that we are facing is in the two major territories, which is our Karnataka and Telangana.

Telangana, of course, we have had the course correction because Telangana was the state where this INR8,900 crores mainly came from a huge spurt in Telangana business. And that is where we also got a lot of frauds and we had to completely slow down. And if you see our March '24 annual report, you would see that there were many other issues that almost INR60 crores worth of frauds and all that we have reported and taken and classified them as NPA and 100% provision.

So, those entire -- huge chunk was basically in Telangana state, which was there, where the spurt was also, yes, where the spurt was also there and we had the issues also there. Now, it has completely stabilized. We have whatever had to come out in terms of delinquency. In fact, we did see a spurt in delinquency also there a little bit.

But now everything is under control. Delinquency has started to come down. In fact, in the month -- in the March, this thing, we slightly saw an improvement. In further, in June also, we have seen -- June-July months, we started seeing a reduction in the delinquency, as well as the NPA. So, Telangana is coming out of the delinquency problems and growth also has come to a

level from where now we will have a very stable, steady growth of about 15% to 20% we are expecting from Telangana this year onwards.

Karnataka, of course, has always been growing for us. We don't have any issues. In fact, in Karnataka, our delinquency is also about 0.6% only. We have about 43 odd branches and consistently the growth has been always there. And the team is also very stable in Karnataka. But because the state has had an issue of this e-Khata registration where all the customers have to go for an e-Khata and registration has to be done. So, that has slightly affected us.

We have to even change our focus and do a little more of LAP and a little more of top-up loans in Karnataka. Because for any new registration, any new construction or purchase case, we need to have a registration and an e-Khata, which is not happening at the desired level. So, we have had to slightly change our focus to LAP and top-up loans.

And still the fall is not very much. But things are improving slowly in Karnataka. The state is also working on trying to do some app-based solution for e-Khata registration and all those things. So that -- those things are what is happening. We should see an improvement in Karnataka also once this problem is sorted out.

But now we are in a steady state of about INR225 crores disbursement. June, July, both months we have done INR225 crores. May we did about INR200 crores -- a little above INR200 crores. So, INR225 crores is what we have stabilized and doing in case of Karnataka. So, the growth, if it picks up, we will again reach a 20% growth. Otherwise, some growth in Karnataka is definitely there.

So, with all other areas growing, Q1 we had a INR2,000 crores, which is incidentally the first time that we have reached the INR2,000 crores mark in disbursements in Q1 in any year. So, that also is the first for us. And Q1 generally is also a very slow quarter, because post-March-April is a huge dip, which was there this year also. And even otherwise, the main season picks up from the festive season starts now in September, October onwards is bent. So, normally, 45% business happens in Q1 -- H1 and 55% happens in H2.

So, this quarter, in fact, the way we are going in July also, we have clocked INR800 plus crores of disbursement. So, we are likely to INR2,500 crores is what we have indicated as our target for this quarter. So, we should be around INR4,500 crores plus kind of a disbursement by end of H1. So, if we do that 45-55, we are likely to be around INR10,500 crores. What we are talking about is what we are likely to touch for this year, which is what we have indicated also. So, we are actually on course. We should be doing INR2,500 crores plus kind of a disbursement in this quarter.

Questioner:

So, it's 35%, 34% of the business is Karnataka. I mean, essentially half the business is Karnataka and Telangana. So, unless disbursements in these two states pick up, even if you are doing 20%, 25%, if you want to essentially grow disbursements more than almost 20% over the year, if 50% of the states in which you are doing business grow maybe only 10%, the rest of the 50% need to grow at 40%. So, you have to get for 20% disbursement growth. So, I am just trying to think of the math...

Management: Sure. Sure.

Questioner: Of trying to get there.

Management: Sure. See, as I said, by the way the Telangana is picking up, month-on-month they are doing better than the previous month. So, Telangana also by the end of the year we should be able to have about 15%, 20% growth. Definitely we will have 15%, 20% growth in Telangana. Karnataka currently, even if July month they have come out with an app for e-Khata registration, they have also come out with a full page ads and everything for e-Khata registration. So, that -- if that also picks up, we will -- Karnataka is a state where we have touched INR300 crores also in a month. In fact, we have done more.

So, and last year if you see before this e-Khata issue came up, that was in 27th or 28th of September last year this was announced. So, in H1 of last year we were doing close to INR275 crores average in Q2 we did in terms of disbursements in Karnataka. So, if the moment this problem is resolved, Karnataka will definitely jump back to around INR275 crores, INR300 crores, and we should be able to have a healthy growth in Karnataka.

And as I mentioned, North is growing 35% plus. Tamil Nadu has consistently grown at 35% plus. This year our East zone is also doing 35% plus, close to 40% although it's a smaller base and West is doing at 15%. So, as -- even if you look at that, that math, even Karnataka and Telangana do a 15% growth, we should be able to reach about INR10,500 crores.

Questioner: Got it. Okay. Maybe a few questions around margins. So, if you look at what's happening given we are an HSA while -- and we have our own PLR, while the banks are willing to repo largely. Now, the differential between the rates which we offer and the banks is actually widened because on the back of at least they've repriced 100 basis points. Can you help us understand how much have we passed on so far and do we -- even that we are passing on the LAP basis, does it sort of increase the incentive for [VT 00:33:33] out on our repo?

Management: See, we have passed on 25 bps to our customers, 10 bps we passed on in May when we got the benefit of that February repo rate cut impacted us. Then another 15 basis points we have done from July after we got the April rate cut benefit and part of the June rate cut benefit also, because some of the banks we had a quarterly reset. So, we had that benefit coming in June itself. So, we passed on another 15 basis points. So, 25 basis points is what we've passed on.

Now, the incentive is definitely, if you look at it, the differential is definitely there between banks and us. But again, as I said, banks have a slightly higher ticket size segment that they cater to. Second thing is, banks now, this is the first time after the EBLR has been introduced where the rates have gone down. So, the kind of aggressive pricing that was done in the past, now 1% going down means, on the entire retail portfolio for banks, the margins have come down drastically. In fact, many of the banks, the 3% margin has been breached. Some of them are below close to 2% and something also.

So, definitely this is something which is quite low, whereas on the deposits, they have not been able to bring down the cost as so quickly or by as much. Even some of the banks who have

reduced the deposit rate, they have reduced by only 50 basis points, not by 100 basis points. Whereas on the asset side, they have reduced by 100 basis points.

So, what has happened is, incrementally, while on paper it makes sense that, customers should want to go and move out and move to somebody where the differential is much higher. But at the same time, the banks are not actually being so aggressive, because it is the current year, the margins is not at all attractive for them on the new incremental loans, at least the big PSU banks.

So, that is why we are not seeing so much of a BTO. If you see our June quarter, when February already the rate cut cycle had started, we had not passed on anything in March. When the second rate cut happened in April, we passed on only 10 basis points, whereas banks had already passed on 50 basis points. In June, they have passed on another 50 basis points, whereas we have not passed on much.

So, now, in spite of that, if you see, our requirements have not increased because on ground the -- takeovers from banks has not increased. And other than the PSU banks, if you see, for incremental loans, even private sector banks have not reduced the lending rates. And incrementally, NBFCs and HFCs have not even given out the 25 basis points that we have passed on. And what we have done is, 25 basis points, we have passed on to all our housing customers, we have done. Salaried full 25 basis points and self-employed also have got benefit. Housing loans, we have passed on 25 basis points. So, that even...

Questioner: Non-housing?

Management: Non-housing, we have not done. We have not done for non-housing. We have done for housing. And if you see, others have not passed on anything to -- not to the existing customers and not incremental customers also.

Questioner: Okay, understood. Because, I mean, the point is that, LIC made this comment on the call, it's a tough call this year between growth and margins. They said we are unlucky to get much growth this year. Also, they said that we want to prefer protecting margins. But when you are trying to protect margins, I think there is risk of waiting really long. So, I was just, I mean, the comment was coming more from that context.

Management: Agreed, but LIC also is offering the rates which banks are offering. They have passed on 25 basis points, but incrementally they are offering 7.5. So, yes, there could be some risk of the existing loans going on, but new customers coming in is, is quite good, yes. So, growth, that way it should not be.

But if at all they do, their margins are affected, it will be because of the incremental business that they do at a very fast pace. They pick up loans at 7.5 or 7.75, then it could affect their margin. But, otherwise, for existing customers, we do not, at least we have not experienced much.

And in our case, our margins, we are, as you rightly said earlier, we are passing only after it is impacted on our liability side. So, our spread will not be at least adversely impacted. But, yes,

because of the LAP effect, yes, there could be some couple of basis points or so. It could improve also.

Questioner: Sir, since over a period of time the share of NHB funding in our liability book has come up, can you help us understand why that is the case? And what would be the blended cost in the NHB book relative to our overall cost of funds?

Management: Sure.

Questioner: I mean, the context again being here is that for a lot of people, especially maybe some of you on the affordable housing side, the NHB sort of stores have added, to their spreads over a period of time given the cost at which it has come. But just trying to get some sense from you around that.

Management: Sure. See, in case of NHB, in FY '24, what happened was, normally what NHB does is they give an affordable housing fund, they give a loan, and then there is a regular refinance also. The regular refinance normally comes at 8% plus, whereas, I mean, of course, depending on the [HHCA 00:39:20], depending on the rating, depending on the quantum and everything. And in case of affordable housing fund, it is fixed. This year they have announced 5.25%. In the past, we also have availed this affordable housing fund at a rate of 4.5% fixed.

That was when it was earlier, in the earlier avatar. Now it is 5.25%. So, we get a blended cost of how much we get. Long back, four years, five years back, till four years, five years back, NHB used to give 1 is to 1 ratio for affordable housing fund and regular refinance. So, 4.5% and 8% also, we used to get at around 6.5%. So, that was the blended cost.

So, in FY '24, what happened was, they changed this ratio to 1 is to 5. Now, obviously, 1 is to 5 ratio means our total cost from the NHB borrowing would have been around 7.6% to 7.8%. So, that is why we said it is not attractive enough for us to take that, avail that fund. So, we did not avail that fund because we were able to get at a cheaper rate outside also. So, that was one of the major reasons.

Subsequently, last year, they sanctioned us INR2,000 crores and they reduced that mix to 1 is to 3. So, when it became 1 is to 3, then the incremental cost of borrowing of NHB came down to around 7.3% or something, 7.34% or something. So, we were able to draw that fund and we were able to utilize the full funds. This year again they will be sanctioning us. We have made an application. Normally, their year-end is June. So, they start the application process and everything afterwards only. So, we should be expecting -- we are expecting some sanctions this year also.

Depends on what is the ratio in which they are sanctioning the affordable versus the regular refinance portion. We will be taking a call on whether to draw that fund or not. Because today, if you see, if I go for an NCD, our three-year NCD comes at a rate of around 7.25% or below that. Between 7% and 7.25%. Our bank borrowings are all at 7.25% or below, okay. In case of a CP, which is a very small 6% to 7%, we are doing it. We are getting sub 6%. We raised two days -- two days, three days back also at 5.92%. So, we are getting a short-term, that's of course 90 days. It's not comparable, but still we are getting that.

So, anything which is above 7.25% will not be attractive for us, and we might as well go for other borrowing and not go for NHB. Because tomorrow, NHB -- first of all, NHB also, as a regulator, they are -- they don't come under the EBLR thing. So, what happens is, they pass on and it is all annual reset. So, even in a reducing rate kind of a scenario, the NHB funds don't -- the rate cost of NHB funds doesn't come down much.

Even now, for that matter, 100 basis points reduction has happened in our -- in the repo rate. But NHB recently has announced the reduction of 35 basis points in their EBLR. So, our rendered NHB cost is somewhere around 6.75%. And incrementally, we are getting, we got it at around 7.3% or something, incrementally.

Questioner 2: Can I just ask, are falling rates good or bad for you, in terms of interest rates?

Management: Traditionally, falling interest rates have always benefited the HFCs.

Questioner 2: But it seems this time, it is going to be different.

Management: Not really. In fact, I mean, it may, since now, in fact, the regulators are all insisting and are monitoring the transmission of rates also very aggressively. So, obviously, I am sure other HFCs will also have to reduce the rates. But just look at this thing, the rate reduction that has happened, so on the borrowing side, other HFCs have benefited.

Unlike us, where we have passed on the entire reduction to our customers. But other HFCs, if you look at it, whenever the rates have come off, they have not passed on to the customers as much. In fact, none of the HFCs other than LIC and us, and I understand PNB has mentioned they have reduced something, although we are not aware of it. But I understand somebody mentioned that they also said they have reduced something, but there was no clarity when and how much and all.

So, other than this, nobody has reduced their rates on incremental or for their existing customers. But on the borrowing side, everybody has gone and negotiated with banks, has taken the benefit of lower cost CPs, has benefited from NCDs at a lower rate. And their cost of borrowing has come down. So, it should be reflected going forward for HFCs. Although, in the current -- yes, please go ahead.

Questioner 2: So, sir, why does everyone think that LIC's rates have come down with foreign rates? Why is that?

Questioner: Because they have higher NCD rate. 55% of their borrowing is NCD.

Management: Yes.

Questioner: So, fund limits are there. Fund limits are there.

Questioner 2: Yes. Yes.

Questioner: Yes.

Questioner 2: Okay, okay.

Questioner: So, you -- I mean, you have a largely bank-combinated...

Management: Yes. We have bank and then second thing is in case of banks, we have 80% of our bank borrowings linked to repo rate and 20% linked to T-bill. We don't have anything linked to MCLR.

Questioner: Which is why you got pretty much the immediate refreshing of the bank sector.

Management: Correct. Correct. And that is why we were also able to pass on. In fact, we passed on first before LIC also our 10 basis points first.

Questioner 2: Yes.

Questioner: Then 80% of your bank borrowings is linked to repo rate.

Management: 80% of our bank borrowings. Today, about 55% of our borrowing comes from banks. Out of that, 80% is linked to repo rate. So, on that 80%, we have got that 1% benefit. Of course, there is a INR3,000 crores where we are yet to get INR2,500 odd crores. We are yet to get that benefit. And we are working on that. That is already just happening.

Questioner 2: I had -- so there has been a small -- I mean, usually, I mean, with cancelling over period of time, asset quality has never been an issue. I mean, that continues to be the case. But I just -- there is a small increase in Stage 2 -- in this quarter. Maybe some color which you want to just provide around asset quality. In general, we have noticed is that there has been some slight deterioration on the asset quality side. Anything which you are particularly bothered about?

Management: No. No. Actually, in fact, in this quarter, Stage 2, actually, in absolute value, slightly come down by around...

Questioner 2: Stage 3. Stage 3.

Management: Stage 3, of course, is a Q1 cycle. Every time in Q1, there is an increase. Last year, there was a INR39 crores increase. The year before that, there was a INR32 crores increase. So, this time also, it is in line. So, but overall, if you look at it, in fact, the March quarter, the delinquencies came down compared to December, which, okay, you can say is normally a phenomena across the industry, that March delinquencies are lower. But in June, our delinquency was lower than March also.

Overall, if you look at it, last year, FY '25, Q1, we had a INR360 crores increase in delinquency in Q1. Whereas in this quarter, in June, FY -- Q1 FY '26, our delinquency has come down in absolute value by INR280 crores compared to March.

Questioner 2: Right.

Management: So, in fact, in this month also, July also, our delinquencies have come down compared to June number. So, I -- as I had already indicated in my earnings call also, that in Q2 also, we are

expecting that our delinquency will be lower than our Q1 number. It is a little, I know, a little contrary to what is witnessed in other HFCs. Wherein everywhere, they have increased -- there is an increase in our, in the delinquencies. Particularly, 30 plus DPD, quite a few of them have shown an increase. But in our case, if you see 30 plus DPD, there is no increase. SMA1, SMA2, in fact, there was a reduction by INR8 crores or something.

Questioner 2: But how do you think the credit cost is?

Management: Credit cost, see, last year, we had 13 basis points excluding the management overlay. And this year also, we have given a guidance of 15 basis points. But I think it will be below that. I mean, actually, by the end of the year, if you see the total credit cost number, it will be lower than that. It should be lower.

Because you have already witnessed the first quarter where the delinquencies have actually come down. Q2, again, we are expecting and working on a further reducing our delinquency numbers. And all the effort that we have put in the [SURFAC 00:48:19] and all that, we are looking at it. I am -- I mean, I don't expect to increase in the NPA numbers also by the end of the year.

At least the way it is going, we are quite confident the numbers should be manageable. It will be very, very much below. Our SURFAC efforts, which are ongoing, should get us some results this year. We have been quite aggressive on SURFAC. So that, I think, will not be a problem. Our guidance is 15 basis points, but it could be lower.

Questioner: Sir, just a few more questions. One, can you challenge this being an organization where a lot of the pay scales are benchmarked to SOE levels? And I know there was some benchmarking and there are some adjustments which you have done in this quarter where salaries were revised upwards.

Management: Correct.

Questioner: So, I don't know whether that was worth solving the process. But anything as a challenge which you have seen within the firm? Can you just take us through sort of who is benchmarked to SOE and what levels beyond are we somewhere closer to private sector levels?

Management: See, the problem is correct that there is a benchmark because it is a PSU-backed organization. So, some of the pay scales, some of the policies are very much into that. Of course, anything you know, sorry, whenever it is a PSU versus private thing, there is always a general perception that everything is bad. But it is not the case. There are some benefits also.

So, what happens is at the lower levels and all up to maybe a level of Scale 4, Scale 5, which is equal to a Chief Manager kind of a level, compared to the market, the packages are quite comparable. In fact, it could be better also. But in the higher levels, once after a particular point, the inflection point, there is a phenomenal increase in the private sector, which in our listing is not so much. It is a more gradual increase. So, the difference in packages at the senior level or the top management levels is definitely quite wide.

So, to that extent, we have made quite a few changes actually in the last one, one and a half years. First was that last year in November '24, we introduced the ESOP program for our chief manager and above level. So, that is one positive step. So, their ownership in the company also will bring about some more benefits. Definitely, that is a positive thing.

The second thing as you notice, we have done a compensation benchmarking and we have done some kind of adjustments and corrections in our packages in this quarter. Of course, it is a one-time blip is definitely there. And -- but beyond this year, it will all get evened out and will get absorbed.

To that extent, our cost income ratio slightly increased by about 1 percentage point from 16%, 17% to around 18% -- close to 18%. But having said that, we are now a lot more comparable. At least, even in the mid to senior level segment, we would be in a position to at least attract some talent from the market. I do not think that would be very difficult.

Of course, there will always be players who will be paying higher also. But I think for somebody who will definitely be comparable in the mid to slightly senior segment, we will be able to attract talent also. So this has of the whole purpose of this correction is also that we should be able to get some good talent. So, I think that is taken care.

Of course, attrition has been low. So, most of the people in the senior management actually are also people who have grown from within the organization. So, while there would be a difference in the senior levels in terms of package, but the loyalty, the association with the company and all those things definitely helps. So that also is there.

Questioner 2:

Is Canara Bank committed to holding their stake within the firm? We still do not have 100% clarity on RBI regulations around two entities doing the same business. I mean, HPE was allowed, but we are not 100% sure if there is. The sword of this always hangs upon these businesses. But just in that context, how committed are they to continue to own? And if their ownership for some reason had to drop to 20%, how does it affect us?

Management:

See, as of now, there is no discussion on liquidating or reducing the stake, okay. While every time there is a question that pops up in the Canara Bank earnings call. And so, the MD mentioned that we have a target, we see an upside and all those things. But there is no talk as of now. And yes, this October 4, 2024 circular did put some question mark on this holding. But that was, I think, a change of governor and all those things.

I do not think that this thing is now too much being discussed. We subsequently had a meeting also with all the group companies and the IRF meeting and all. I do not think this point was also much discussed. So, I do not think there is anything on the table as of the moment where, you know, there is any compulsion or pressure to do anything. I do not think even from Canara Bank's point, they are very keen or they are looking at something at the moment.

However, as you rightly said, it is still a draft stage circular. There is a possibility eventually when it finally happens, it may come out, something might come out. Though there are no indications as of now. But if it does come out, then in that case, yes, the parentage does help in our rating.

We are a AAA rated company. The parentage definitely has a one notch upgrade or one notch kind of difference will be there in our rating. So, which could mean that if that happens, then our borrowing costs will slowly start edging up and about 0.25-basis-point, 0.25 percentage point increase in borrowing costs could be possible.

So, we will have to review at that point in time our lending rates and we will have to look at some segment change and all those things to offset that will have to be done. But in terms of today the reason as to whether there is a reason for Canara Bank to sell, I do not think there is because, the company is doing well. There are other banks also who are having subsidiaries. Almost all banks, PSU banks are having subsidiaries. And among all the subsidiaries of Canara Bank also, I think Can Fin is one of the best performing and the best listed.

I believe more than the listing, it is today, I think if you look at the directional thing that is happening, it is more towards listing and making it a little more public ownership in subsidiary entities. And to that extent, if you look at it, the Canara Bank is today in the process of listing its two other subsidiaries, that is Canara Robeco and Canara HSBC Life. So, with that, of course, there will be a little more market participation, there will be a little more widely held, there will be an independent board. I think so -- I think the RBI is more, veering more towards that, I believe.

Questioner: Suresh, how should we think of your commitment to the firm? It's been two and a half, two and a few years since you've joined in. And how long, I think your firm, as of now, your first firm gets over in 26 March.

Management: March 26th.

Questioner: How do we think -- yes, how do we think of your commitment to the firm? Again, context here, there's been a departure at PNB. I mean, there's a lot of musical chairs going on in the industry, people moving from here to there. So, just curious of how do you think about commitment to the firm?

Management: Well, you can, you can see that my first stint at, was 25 years in an organization. But for the change of ownership from [Groww 00:56:36] to Bandhan, and there also I stayed for three years. So, if you look at the combined stint in the entity, it was more than 25 years that I was in one organization. And my current, term is also basically three plus two. So, if you go by the track record, I think it should say a lot.

Questioner: Okay.

Management: So musical chairs, I mean, obviously, I mean, even in the 25 years I was there in a Groww, there was a lot of change happening all across and people moving here and there. And but fine, the organization was doing well and so I think there is no reason for anybody to keep looking out unless you are in that game.

Questioner 2: Yes. Correct.

Questioner: So, if I had to just summarize broadly what you are saying, disbursements are pretty much on track. I mean, INR2,000 crores sort of steps up to INR2,500 crores and that INR10,500 crores is on track, which basically gets us to this year 12%, 13%-ish.

Management: Correct. Correct.

Questioner: We have offsets in terms of segmental players, which will sort of mean that INR2,500 crores spreads.

Management: Yes.

Questioner: If the asset quality seems okay and you are reasonably committed to the firm for more than a medium-term.

Management: That's correct. So, 2.5% spread, 3.5% NIM, which would result in somewhere considering our opex and our credit costs and everything, ROI of about 2.2%. And growth, once it picks up -- obviously, the disbursement growth picks up, but then the AUM normally comes with a little bit of a LAP. So, if this year we are able to do about INR10,500 crores and next year again in the 20% growth, then the medium-term, I think you can look at AUM growth settling to somewhere around the 15%-ish kind of a growth for AUM.

In the -- these two years, obviously, was more of a correction stage. But slowly, once it picks up, it should be somewhere around the 15% AUM growth should be what we should be looking at in the medium-term. And as I said, credit costs are not a concern because traditionally, we've never had a 1% plus kind of a GNPA. And we already have built in a decent management overlay, which is almost INR59 crores. So, in terms of provisioning, in terms of our listing, it is quite okay.

Questioner: Sure. Is there anything else?

Questioner 2: No, no. Good. Thank you very much.

Questioner: Great. Thank you, Suresh. Really appreciate you taking the time out.

Management: No. No. Thank you so much. Thanks. Thank you.

Questioner: Okay. Bye-bye.

Management: Bye-bye.