



“Can Fin Homes Limited Conference Call”

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Questioner: ...was wanting to understand, the space is doing very well, right? And the real estate is doing very well. All segments, if I had to ask you, they are all doing quite well. So, I was just studying Can Fin and I came across the fact that we have not really grown that much, right? And our asset quality is not bad. So, it's not a deterrent to our growth per se. So, sir, why are we not being able to grow? Is it too competitive?

Management: No, I think it's purely internal. Frankly, we had a couple of things yesterday also this question came up. What happened was we have, in terms of technology, there are a couple of things where we kind of, in the past, missed the bus. One was in terms of technology. Currently our technology is something which was implemented in 2011. So, there was something which we definitely is long overdue. And that somehow, during the COVID period and all, it got missed out. We couldn't upgrade or change the LOS, LMS to a more nimble, more robust kind of a thing. So, that is now happening. That is one thing.

Second thing, in terms of some of the internal controls and all, I think that was a little area which was, there were some issues. Therefore, we also had a fraud in 2023. And post that, for almost one year, we completely kind of slowed down. We implemented a lot of internal controls, reviewed our processes, reviewed our policies, got a lot of IT integrations also done last year. And the last 18 months, we have done almost everything. In terms of the technology stack, I think except for e-sign and that one thing or this CRM module, and we have rudimentary DMS. It's you can't call it a complete DMS and account aggregator, which anyways just a new thing.

Questioner: Sorry to interrupt, sir. Just one question out here in the middle. When you are taking a home loan, most of it is now online. Because there is a lot of physical presence involved, right?

Management: Definitely. Definitely.

Questioner: So, how does technology out here impact things?

Management: Yes, like, for example, earlier we used to take the customer to manually give the income tax returns. Now what they have filed is a physical copy. Bank statement used to be a physical copy. And there are possibilities of issues there. The return may not be the one which has also been filed on the website.

Now what we have done is we have tied up with a package called Karza. In that what it does is there are five, six, among the many things that they offer, one of the few things that we have taken is, one, we just scan this Aadhaar. It automatically checks with UIDAI, confirms and verifies that the Aadhaar is valid. Same way PAN.

Third is, with the OTP, which goes to the customer, we are able to directly pull the ITRs which have been filed and are available on the portal. So, those kind of issues where some element of fraud can creep in, they are eliminated. Same with the account aggregator, which we are now almost finalizing. Once that is there, we will be directly able to take the bank statement in PDF

format from the bank itself rather than waiting for the customer to give something which could be forged also. So, these are the things.

So, anyway, same way, integration for CERSAI upload. Every property that we do, before we take up a, give a loan, we have to do a CERSAI search, whether the property is mortgage, whether there is some encumbrance. Now that is something which we are getting integrated into our system. Same way, once we give a loan, our charge has to be uploaded on the CERSAI.

Then another thing is this CIBIL. We have tied up with two civil credit bureaus. So, for both of them, pulling the reports and that integrating into the system. Another thing is now, on our valuation side, we have tied up with a thing called Velocity. Then Velocity, it is again a mobile app also, which is now we have trained all our valuers, empanelled valuers. They also have downloaded this app and are using it for us. So, whenever they go for a valuation, they do all those things. It comes with geo-tagging, it comes with a location, it comes with a...

Questioner: So basically they put radar valuations out there.

Management: So, that is also there. They enter all those things based on the visit and also the photograph and everything. Plus what happens is, because this Velocity is also tying up with other companies, they have a database of what, in that pin code in that area, what is the price that others have considered. So, in case there is some major deviation, some variation of more than 5% or something, we can then double check and question also. So, this brings in a little more kind of checks.

And same way for our legal. There are tools we are evaluating. Of course, we have not got very positive results. Like the Teal is one software we have evaluated. So, now what happens? Directly it goes and checks with the sub register offices or the records, state and government records to see whether the title is there, title is clear, whether the name is currently reflecting the name of the vendor who is selling the property to a customer. So, those kind of things, integrations and IT interventions is possible.

Now, on the recovery side, collection side, we have call center integration through API. We can move that. Another thing is for customer servicing, we are now having an AI tool. We have just launched. In that AI tool, directly customers can straight ask, I want my statement of account, I can do this. A lot of customer service gets...

Questioner: Lot of basic questions get taken care of.

Management: All of them get taken care of. Even a customer wants, he doesn't have to come to the branch, he doesn't have to download it and send the email and all those things. If they are registered, if they are registered email automatically, the system will talk to each other and will pull the report and send it to the customer. So, in the servicing part it improves. So, these are some of the kind of things.

Like another thing is, you know, in terms of recovery, collections. We have tied up for a tool which is a SARFAESI tool. So, all our SARFAESI actions, we upload the documentation and everything, because one is it has its own escalation matrix, it has its own self-generated reports which we can master, we have to create. So, a lot of things for support of the branches can be done in this kind of thing. So, technology on each of these aspects, you see credit appraisal, onboarding, all those things are there.

Questioner: Sir, but all of this was not done before this has just been integrated over the past four years because all the others, then we have lost out big time, right?

Management: Absolutely. Absolutely. All these things, if you see the Aadhaar, this Karza tie up, Velocity tie up, CIBIL on this thing, CERSAI. We are talking about this account aggregator is now happening. We are talking about this tie up for SARFAESI tool. Everything has this BBPS for collections. Everything has been done in the last 18 months. So, there is one complete tech kind of a thing which was missed out. That is one part of it.

And the second, of course, in between there was also some, in 2018, there was some this thing about sales, stake sales and all those things. So, that completely kind of derailed the team. I think there is now clarity on that aspect the support from the bank, the involvement, their guidance, everything is 100% there, and I don't think that stake sale issue is now...

Questioner: Sir, because there is support from the bank, are we getting an advantage on our cost of funds also?

Management: See, parentage definitely helps that brand support, that oversight and everything, definitely gives a comfort even to the rating agencies. But for that, we would not have got a Triple A rating. I am sure on a standalone basis, howsoever good our individual performance would have been, without the backing of a large player like a Canara Bank, the rating agencies wouldn't have given us a Triple A rating. It would have been a Double A+ at max. So, in which case there is a, I would say about 20 to 25 bps cost advantage that we enjoy. Not to mention that over a period, of course, it's more than that because over a period, the servicing and all those things also give a comfort.

So, today, if you look at it, our NCD, we have just, today, if we go to the market, probably we will get a three-year NCD at around sub 7.4%.

Questioner: Oh, that's amazing. Three-year NCD at 7.4.

Management: Sub 7.4. Maybe tomorrow you can check out on the platform.

Questioner: Sir, I also noticed you are not that levered, right? Like, if you look at...

Management: No, in fact, we are at 6.96 or something. Almost close to 7.

Questioner: Oh, is it? Because I was, according to my calc, for some reason I may have miscalculated something, but we are showing about 5 to 5.2.

Management: No, actually, we were double A plus rated. And with one of the rating agencies, CARE had given us Triple A, but ICRA had given us Double A+ only. And that was because at that time our gearing was 8x, more than 8x. So, I think 8, they were a little okay with 8, below 8. So, that's why we said that we will keep it below 8. I think up to 7.75 or something, the rating agencies will not have a botheration. So, we still have a scope, I mean almost single one time leverage is possible, we are at below 7. Up to 7.75 there is a scope to improve, no doubt about it. So, that leverage will help us in obviously improving our...

Questioner: Sir, in terms of aggression, if I had to ask, because today, it's become a very competitive environment. You look at all the other housing finance guys wanting to aggressively expand their books and all. So, would it be fair to assume that, going forward, now that all the tech problems, everything is behind us, we can go very aggressively and lend?

Management: We can lend. And so we are looking at at least a 15% to 17% growth in the medium term, it is something that we will be aiming for.

Questioner: In the medium term, you mean two to three years?

Management: Two to three years. Absolutely. Because even this year, in fact, see, AUM growth comes with a little, with a one or two year lag, because the disbursement growth will come first, and then the base, and then the AUM growth will come. So, this year, even though we are targeting a 20% disbursement growth over last year, you know, the AUM growth will still be around 13%. But the next year we do another 20%, then this 13% will definitely move to 15%. That's how it is. So, this year we are targeting about 20% disbursement growth over last year, which 8,500 and something odd we had done. So, about 20% will be around closer to 10,500 or something disbursement.

Questioner: Sir, provisions are going to kind of be on the same level.

Management: Credit cost, we are last year also, even without management overlay, it was around 13 bps. So, we are guiding for 15 bps, which definitely would be more than sufficient.

Questioner: And sir, we are expecting some more rate cuts from RBI, right? So, do you think that's going to help us significantly?

Management: See, traditionally, housing finance companies have benefited from a rate cut, because the timing of when they pass on to the customers or how much they pass on to the customers has always been at their discretion. But having said that, as a large player, as a conscious and a prudent and a transparent player within the market, we have at least been, we will be passing on to it, although we will be passing on only post we getting the benefit of it.

However, some advantage could be there in the sense that today about 75% of our asset side is on an annual reset basis. Only 25% is on a quarterly reset basis, which means somebody whose, for example, last reset happened in January. Okay? The next will happen in January 26.

Questioner: Sir, but shouldn't we have a quarterly reset?

Management: We have already moved to a quarterly reset, but we did it from January 24. So, post that all incremental loans are on quarterly reset.

Questioner: And what percentage of the book would that be as of today?

Management: In terms of quarterly reset?

Questioner: Yes.

Management: As I said, 25% of our book today...

Questioner: Oh, as of today, it's 25%.

Management: 25% is this. 75% is on annual reset. But from January 24 till February 25, there was no rate cut. So, it was a stable market. So, even though we sent SMSes, we sent letters, customers didn't come forward or let that change. But going forward, definitely now we have the number of requests we are receiving for transfer to for a price reduction or rate reduction and conversion to quarterly reset has increased. So, believe in a quarter, now this thing will definitely pick up. Probably next quarter it could even be as high as 32%, 33% also.

Questioner: I mean, typically, what would be the duration of a loan? Because when do we see this entire book move, right? Today it's 25%. When do we see this move to like maybe 75%-80% of overall book?

Management: Now that the rate cuts are happening, I am sure in another 3 to 4 months, I think this will definitely become 75%. I believe it. Because customers will want to see a rate cut. (Hindi language 00:13:08) Why not me? No, sir, yours is annual reset. Please come forward and execute this documentation. Give us a consent letter. We will immediately do it.

So, now, as I said, every day we are receiving requests. Every branch probably is receiving one or two requests every day. So, that is something which we will happen. I think in the next 6 months, we should expect that a sizable amount of it would move from annual to quarterly.

Questioner: Sir, is there any geographical area that we want to focus on more? Like any specific states that you would like to focus on more versus the rest of the country? Where do you think the growth is actually going to come?

- Management:** See, today, forget the growth part of it, but otherwise, today our South market was very traditionally we have been in a South-based player. So, we have been a very strong presence in the South. Yet almost 72% of our business is coming from the 5 Southern states. Now that in terms of the geographical concentration risk wise it is also a little not very prudent. So, from that point of view yes, North and West markets we have been pushing.
- Last two years we have opened about 39 branches of which 27 are in the North and West only. And the rest also is in Tamil Nadu and East, but 65% of our business comes from Karnataka and Telangana. We have not opened a single branch in either of the two states.
- Questioner:** Sir, but if I have to look in terms of NPAs, then the South could be the best of, right?
- Management:** True, that is true.
- Questioner:** If you look at people paying back, let's just put it that way, then obviously then the South would be better off than the rest of the states.
- Management:** No, no, that is correct.
- Questioner:** So, why not just focus on South?
- Management:** See, in terms of the market also today, like I tell you today, we have about 45 branches in Karnataka, 50 branches in Tamil Nadu. Almost every district we are there. So, further penetration, then it will be only cannibalizing on your own markets. So, that is one of the reasons. Maybe 50 can go up to 60, but not beyond that. So, we have to open centers in the North. And if you look at it, markets like UP or Rajasthan or Gujarat or even Maharashtra, Maharashtra is very hugely under-penetrated.
- Questioner:** Even still, even today, after?
- Management:** Yes, even after this many branches, today we have about Rajasthan, Gujarat, MP and Maharashtra, four big states put together, we have only about 47 branches.
- Questioner:** But it's, I mean, in terms of home loans, right? Like, it's mostly saturated because, I mean, I was talking to Bajaj the other day, and they seem to mention that penetration is quite high already in all of these states, right? Because every player wants to enter Gujarat, every player wants to enter Maharashtra, every player wants to enter Rajasthan. These are the three, I would say, top states in terms of paying back.
- Management:** (Inaudible 00:15:58) Maharashtra would be one. Tamil Nadu is second. Third would be, maybe Karnataka or Gujarat. And fourth would be the other one. These are the four states and the fifth is Telangana.

- Questioner:** So, we won't face a challenge out here.
- Management:** So, challenge will be there, but if you have a presence, if you have a branch, definitely business will come. It is not that, you know. And see, today if you look at our cost advantage is giving us the benefit that we are able to price also aggressively. Not as aggressively as the banks, but if you look at the entire other market, we are far ahead or better in terms of rates as compared to the entire affordable segment, which could be an Aadhaar or an Aavas or an HFFC or a Vastu or an Aptus or an India Shelter or anybody. Among all of them, we are definitely better.
- Our immediate competition or the similar entities which can offer similar kind of rates would be LIC, PNB, HFL and Bajaj. Okay? Banks, of course, it's their way ahead. I mean, today, when we are saying we are 8.85, they are offering at 7.9 and 8%. But then, of course, the segment is also different. They are in the Rs. 50 lakhs, Rs. 70 lakhs and those kind of segment, where we are in the Rs. 20, 25, 30 lakh segment. So, segment wise, we are a little below the radar for them and we would like to remain like that.
- Questioner:** And sir, so in terms of cost to income, right, if we had to compare ourselves to the other guys, I mean, are we trying to make our cost structure a little leaner? I mean, obviously automation helps in a massive way. But if we had to look at, say, workforce reduction, are we trying to do something like that?
- Management:** No, in fact, if given a choice, if once the automation brings in a little more ease of operation, stat improves, our productivity improves, then we would like to free up the people and put them more on the field rather than the...
- Questioner:** So, on the sales side?
- Management:** On the sales side, yes. So, it is, in fact, on the staffing side, I think our staff costs are the lowest in the industry.
- Questioner:** So, that's what, because I was looking at this, right? Everything looks right. I mean, everything looks so good, right? The valuation also looks so good. But at the same time, the only challenge that I have seen...
- Management:** Investment and growth.
- Questioner:** And you know, we held this for like 2-3 years and then we decided to sell out maybe a year ago. So, just to give you a background, I have just started a fund. So, we are in the process of raising Rs. 1,000 crores right now. And I also managed my family book, which would be about Rs. 1,000 odd crore. So, we were very invested in Can Fin Homes for about 2-3 years. And then we just didn't see anything happening, even in terms of growth and all. It was a serious challenge.

Management: I acknowledge this is basically the issue was one was technology and the second of course was that 2018 issue led to a lot of...

Questioner: So, were there a lot of skeletons in the closet at that point of time? Could we say that?

Management: No, I wouldn't say there were too many skeletons thankfully. Frankly, I keep telling the team also that with so many loopholes, actually it could have been much bigger hole. But thanks to all the commitment of the staff, the people and all, in spite of so many loopholes, in fact there weren't too many, but there were a couple of them. And we cleaned up a lot in 2023-24.

'23-'24 actually if you read our annual report and all, almost close to Rs. 60 odd crores is the frauds that we have cleaned up, written off and taken the complete impact of that. And all of them clearly indicate it is purely because of internal control issue. And in the business that we are, of course, if you are not very tight, then any time people can falter and make mistakes. So, we have corrected a lot of, you know, we are in a much, much better comfortable position today in terms of the internal controls, in terms of the IT and all those things.

So, now, in fact, with that two major issues which were hurled, I think going forward definitely this is one. And of course, there is one thing which will always be there, that unlike some of the other entities or most of the other entities which are purely in the private sector, we have a quasi-PSU, something you can say. So, that is one thing which will always be something which gives a comfort, but at the same time will be, you know, whether the market is growing at 20%, this will grow at around 50%.

Questioner: Sir, I am very happy with that, because the valuation is also that much lower. But at the same time, we just wanted to kind of get clarity on the growth levers.

Management: No, that is the only thing. There were two issues. One was the technology, which, to a large extent, we have taken care. Of course, we still don't have the marquee names, because in the short time we have to do it. But now that IBM implementation is happening, I think what we are getting is a much, much stronger, robust, nimble kind of a thing. We are getting Pennant as the LOS elements, which is also out today at Bajaj and at LIC Housing. We are also getting Workline as our HRMS, new gen DMS. So, all of them are very strong market leaders in their own spaces. So, we are getting all of them. That will definitely further help. But having said that, all this has happened in a matter of the last 18 months. All these technology improvements, this clean up of the book side, internal controls, they have all happened in the last 18 odd months.

Questioner: Sir, I have another question. This is not related to Can Fin Homes specifically, but just on the economy side, right? Economy has been slow for the past 12 to 18 months, right? Like everything across the board has been slow. If you look at all kinds of consumption, it's been slow. That's why we are having to do rate cuts right now.

Now, sir, how would, and because this is also trickle down to housing sales, because every housing company seems to be saying that growth is tapering down. Like earlier, what we were projecting and what we are seeing on the ground today, there seems to be a stark difference between the two.

Sir, so, my guess would be environment would be even more difficult to lend if there are not going to be too many home buyers. Because of COVID, people realized the value of buying a house.

Management: Correct.

Questioner: But people have shorter memory also. So, now I think that's behind them. Or people are looking at renting all over again now. So, sir, in this scenario, it becomes more challenging for us. So, do you think this 15% growth is actually achievable? Because, just on the basis of this?

Management: Yes, two points here. One, first of all, in the last two years, while all this was happening, we have built in some capacity. And last year also we built in capacity because our technology space and all things was fairly done and then this Karnataka issue happened. So, we had a small hiccup, but we have built the capacity.

Two, the capacity has also been in terms of the new branches. Last year we opened 15, the year before that 10 and 14. The last, of course, branch we opened in the last year, were all opened in Q4, so the entire impact would come in this year only. So, that, definitely that cycle of new branches contributing and the contributions starting to add up and all, is now, will be visible.

Second, we started the marketing thing, which was also sales team, which was not there in the because it was...

Questioner: So, what's been the increase in sales team, if I may ask?

Management: It is right now, it is just about 39 people, because we started last year in June, and we had a pilot and all.

Questioner: So, before that, you didn't have any sales people on the ground at all?

Management: No people on the ground. So, now we have started the sales. This year we will be adding another 75 odd and we are taking it above 100. We have just about 235 branches. So, almost every branch we will put some salesperson or something, at least in the bigger Tier 1 towns and metro towns. So, that will also bring in some business. We are looking at almost 3x to 4x the business in this year from the market as compared to last year. Last year they bought about Rs. 179 crores.

Second thing is, while that will be on the internal side, why we believe the sales and everything should help and build business, the second point is when the rates come down, obviously,

affordability increases. So, that also actually helps. So, on both sides, one on the internal side and on the external side, that also will help. Because the EMIs will be lower. You can therefore take instead of Rs. 30 lakh, you can take a Rs. 35 lakh loan, things like that.

Questioner: And see, housing prices have also gone up significantly, right? Like, they have gone up like crazy. At least I can speak for Bombay and I can speak for Calcutta. I have houses in both the places. And sir, prices have gone up to the tune of 50% to 60% over the past three years, right? Two to three years. Now, even if I had to compare it pre-COVID, I would still say the hike is that much.

Management: Correct.

Questioner: So, with homes getting so much more expensive, right? And obviously if your homes get more expensive, your EMIs also get more expensive. So, do you think that demand, that's why I am coming back to the same question, sir. Can demand actually sustain?

Management: In a way, that will push people more to the periphery where we are there.

Questioner: Right.

Management: Affordability is there only.

Questioner: No, absolutely, absolutely.

Management: Affordability is there only. But two days, three days back, there was some article about nowadays people who are in Bombay and all that, fifties are taking retirement, putting their houses on rent at Rs. 1-1.5 lakh and taking and in Thailand and all your and this one.

Questioner: Correct, correct. No, absolutely.

Management: I mean, there was an article, a huge amount of talk going on.

Questioner: No, no, rental leaves in India are quite low. And if you look at comparative cost of living, it does seem to have gone up like significantly. I will give you an example. I was living, I used to live in Goa during COVID. I was in Goa for a year, year and a half. And the place that I was staying at is now the rents have gone up by 3x. So, a market like Goa has just gone crazy.

Management: Goa, of course, I know that's one of the reasons. Goa, of course, is an outlet and that's in to this. That's why, you know...

Questioner: No, prices have gone up 4x, 5x over the past 2-3 years. It's quite ridiculous.

- Management:** True. No, but I think Goa, of course, for other reasons also. But if you look at it, today, there were companies which were doing below Rs. 10 lakh loans. Today, even those companies are now looking at Rs. 15 lakhs and Rs. 20 lakhs because today the normal, small, common man also appears to take the first home. There it comes around Rs. 25 lakhs.
- Questioner:** Very interesting, sir. I mean, because this entire space is looking good, I think all the problems are behind. Especially over the past 2-3 years, the write-offs and all must have helped a lot.
- Management:** No, not only that we took that also, we have also created a Rs. 59 crore buffer in terms of the management overlay. So, in terms of that we have not only cleaned up and written off a lot of accounts or taken up fraud provisioning, 100% provisioning. But we have also created extra management overlay of Rs. 59 crores.
- Questioner:** Sir, thank you so much for your time. I think we have answered all the questions quite promptly. But thank you so much for your time, sir, and good luck.
- Management:** Thank you so much.
- Questioner:** And we hope we see the economy pick up. That's what we all want as investors at the end of the day.
- Management:** Definitely, definitely. I agree. I absolutely agree.
- Questioner:** So, no, thank you, sir, so much. Thank you.
- Management:** Thank you.