



“Can Fin Homes Limited Conference Call”

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

MODERATOR: **MR. SANDEEP KOTHARI**

Suresh Iyer: So, effective February what we have done is all the meetings that we are having, we are recording it and putting the transcript on our website. So whatever discussions we are having with anybody we refer to that...

Participant: Absolutely. That makes perfect sense also.

Suresh Iyer: Yes. Please.

Sandeep Kothari: Great. So, we will just quickly introduce ourselves. East Lane Capital started 5 years back. Prior to that I was with Fidelity for 19 years, managing the India portfolios. And currently, we are about \$200 million, managing money for few family offices and non-endowment.

So we are meeting Can Fin after some quite some time, but we have been following and looked at it. There were a few things we just wanted to set the thing and start with. One is that overall the strategic choices which are there from here on, how to think about that. So we are in the Salaried and Self-employed, not so much LAP, not so much Builder, but still a pretty healthy return profile. As we think about the future, because those segments are also large segments, do we think we need to get there or we see enough growth in the positions we are there? So product mix, geography mix, how would you...

Suresh Iyer: Sure, certainly. A very, very pertinent question, because actually in 2023 when we have this Vision Strategy paper that comes for every 5 years or 4 years. So last time in '23, when we drew up the Vision 28 document, there were actually 4 major pillars for that. One of the thing was that we were at that point in time in March '23, about 73% was Salaried and 27% was Self-employed. And we said that by 2028, we want to make that 65% Salaried and 35% Self-employed.

And today we have from 73% on the book, we have moved on to 70%. So we are on that path only. So by 2028, we want to at least make it 65%. It may be a little earlier also, because the way at which we have moved from 73% to 70%, probably that is what we are looking at. But that is one part of it.

The second part of it was that Housing per se, which is including CRE was around 89% in March '23. And that we said we will be okay to take it down to 80%. So it means 20% will be the LAP, the top-up loan, personal loans we don't have, but all those things together will be about 20%. So that was the second thing. So now from 89%, we have moved down to close to around 86%, 76% core pure Housing, 10% CRE. So we are at around 86%, 76% plus 10%. And there we want to bring it down to around 80%. That was the second part of it.

The third is that we want to do branch expansion, because that had stopped for about a few years, because of the COVID and everything. So we said we will restart the branch expansion. So in the last 2 years from 205 branches, we first took it to 219, and from 219 we are now 234. So in the last 2 years, net 29 branches, we have added net.

So there also we had said that by '28, we want to have about 300 branches. So now every year we will have to do about 15-18, 15-18 branches. This year we have said 15, it could be a little more also, but 15 is what we have.

Sandeep Kothari: 15 to 18 branches.

Suresh Iyer: 15 branches is what we are looking at for this financial year, okay. And the 4th major area which we had identified in our Vision document was that we were at that point in time in March '23, Q4 of FY '23, 85% sourcing was through DSA channel. And we said we want to bring it down to about 60% by FY '28, which means that we will also develop our own in-house sales team, and we will also look at other modes like digital sourcing and onboarding and everything.

And we will look at bringing down this DSA to about 60%, which means basically that DSA will continue the way it has been growing normally with a little bit of growth year on year. But we will also add additional sourcing channels, so that whereby the percentage eventually comes down. So on that front from 85%, we have had a slightly slower trajectory, because we want to go up to 60%. So we should have been below 75%, but we are right now at 80%. S

Sandeep Kothari: 80%. So four agency is still sort of work-in-progress.

Suresh Iyer: Correct. Otherwise, all other things at least, this also is definitely efforts and everything has been done, but then results are little slow. One more thing is that we said that by FY '28, 60% should be DSA, 20% should be direct sourcing, 10% should be through digital channel. And digital we have not yet started, because our IT transformation is happening. So once that is there, we will be able to launch that also in a much bigger way. Otherwise the CRM and all those things will be coming as part of this. So that is yet to happen. And otherwise, we have brought it down from 85% to 80%. So this is what it is.

Sandeep Kothari: Understood. Understood. And we were just trying to understand the branch economics. So currently, you would take about INR 170 crores per branch. So if we were just doing an excel exercise. This is an excel exercise from INR 35,000 odd crores AUM, if we were to go to INR 70,000 odd crores, is it that per branch there is lot more scope, this INR 170 crores could go up higher or we just need to expand geographies. So, whatever timeframe if we want to double ourselves, where should the focus be?

Suresh Iyer: See, there are 3 basic areas or 3 things that we normally look at. One is the ticket size normal, natural increase in ticket size has about 5% natural increase in ticket size. First inflationary thing. But we want to further slightly do more than that, because we are right now very much in the periphery of the cities, which is okay, but we are beyond the periphery of the cities also. And so that is something we want to slightly look inward.

Sandeep Kothari: So instead of INR 25 lakh less loan, we could just go...

Suresh Iyer:

Say INR 27 lakhs, INR 28 lakhs or something like that. So it will be more than inflationary increase is something we want to do. Second of course, is the geographical expansion that we have to do, which we have also initiated. And third is that we have to absolutely increase the fleet on street, because the more manpower, more people, more business will automatically come. So that also we will have to look at it. So right now, the first 2 we have done, we have initiated in terms of moving towards the city, slightly increasing the internal ticket sizes and all those things, from doing very, very rural properties or not very, very rural, but slightly in the panchayat area.

Sandeep Kothari:

You are not into more income housing...

Suresh Iyer:

No, no, we are not into that. No, no, no. But what I am saying is that when I am saying rural, what I mean is that the ticket size is about INR 10 lakhs, INR 15 lakhs, and that is in the panchayat areas. We are moving more towards urban centers and things like that. So that has already started happening.

And other than that marketing, we have started as a team. Last year, we started in June with a sales team of about 8 or 9 people we started off with. By the end of the year, we were able to increase it to about 39 people.

And the last year, contribution of the sales team was about INR 179 crores. And month on month, we saw an improvement in not only the absolute value of business, but also the business per staff. So by the end of March each marketing staff was contributing close to INR 1 crores business. This is in terms of the disbursed business that I am talking about, not the sourcing or the log-ins or things like that. We don't consider all those things. I am talking about pure disbursements. So that we have seen some benefit.

Second, in the same sales team has also started doing about project approvals, APF, as we call it. So the APF approvals, we are targeted that last year we would have about 75 odd project approvals. We ended the year with 80 approvals. And this year, we are targeting that by end of FY '26, we should have at least 250 approved projects. Approved projects means the legal, technical is all cleared. So whenever a customer comes and gives the papers, we can immediately sanction and do the disbursement.

And obviously, if the builders get the comfort dealing with us, if they are able to meet their requirements and quick disbursements and everything, then as the builders move from one project to the other, we will also continue to get the benefit of these projects also. Because for the builders, the main business or main interest is that the project should get sold as quickly as possible. And for that to happen loans is most important component.

Sandeep Kothari:

Understood. Understood. So today, if we see, you talked about 20% disbursement, which will be 12% to 13% AUM growth. How to think about the cycle and how to think about growth from our perspective? We are very Karnataka, AP, Telangana focused. We are Maharashtra, Madhya

Pradesh, slowly getting in. So how to think about growth over next 24 to 36 months and how do you think of the cycle right now playing out?

Suresh Iyer:

In segment, we are actually operating in this INR 20 lakh, mid INR 15 lakh to 75 lakh segment. There it is quite stable. In terms of the demand, there is no issue. In fact, what we are seeing is in the Tier-2 towns are also a fast mushrooming. And there also the property prices are also not the old property price of INR 5 lakhs, INR 7 lakhs, INR 10 lakhs, even in a smaller city like you look at Meerut or you look at Ujjain or you look at Sirohi or you look at those kind of places, Bathinda, the property prices are pretty good. Even there, you will not get anything like below INR 20 lakhs and stuff like that if you were to look at this decent size property. So there also we have a good potential to look at all those centers which are mushrooming, which are growing and do business. So we will have to increase our footprint. We will have to see that we have more presence on the ground and that definitely will happen.

Sandeep Kothari:

And increasing footprint means more branches.

Suresh Iyer:

More branches and more sales team also. Like right now, as I said, we started last year with a team of about 8 or 9 people in the month of June 2024. By March, we could increase it to 39. This year we are looking at making it more than 100 people. So addition over 75 odd we are looking at in this year.

Sandeep Kothari:

So what sort of a growth can with all these plans put together, because you have repayments which come through disbursements. So how do you think of it?

Suresh Iyer:

Our repayments, actually, if you look at our last 3-year trend that we show, it's about 15% to 16%, right? That's the kind of thing. So if we have to look at an AUM growth of 15%, then which means we have to do about 30% of the book has to be what we have to do as disbursement.

Today at INR 38,000 crores, if we have to do 30% of AUM as disbursement, then it means something around INR 10,500 or something is what we will have to do, and that is kind of remaining said. This year we are looking at about INR 10,500 or roughly in that range of disbursement, which will give us somewhere around 13% to 15% growth.

Sandeep Kothari:

13% to 15% kind of growth. And 10,500 to do the 15 branches which we are planning to. So the 15 branches which we are adding is good enough to do for our 15 branches?

Suresh Iyer:

No, I will tell you. See, last 2 years, of course, there was a challenge. The year before that we had some issue, and so we had to completely focus on internal controls, changing the processes, reviewing the policies and all those things. So that was the year. Last year, H1 took off quite well and business was there, but then the Karnataka issue hit us. So this year that also seems to be getting sorted out. So definitely the last 2 years, while these problems were there, we did not stop building the capacity.

So the capacity in terms of the 29 additional branches that we have put, additional about 200 staff that we have added in the last 2 years. Of course, some of them have gone into strengthening our head office and control processes, our assurance functions and all those things. But having said that, still there are about 100, 125 people who have been added in the absolute branch, which is the fleet on street. So definitely that capacity has to start reflecting this year.

With Karnataka issue getting resolved, that should get in. So the capacity for the growth from what we did about 2 years back of about INR 8,000 odd crores, INR 10,500 crores is already in the system. We just have to now start capitalizing on that.

Sandeep Kothari: Capitalizing on that.

Suresh Iyer: Yes.

Sandeep Kothari: And the demand is, it's more internal to get there...

Suresh Iyer: Yes. In the last 2 years...

Sandeep Kothari: ...it is there.

Suresh Iyer: Absolutely.

Sandeep Kothari: And how much will it be dependent on getting into geographies like out of Karnataka and AP, Telangana?

Suresh Iyer: See, last 2 years, in fact, we have opened 39 branches. We also closed some 10 or merged a few of them who were too close to each other and stuff like that. So net-net, it was 29 branches. But otherwise, if you see, 39 branches we opened. Out of 39 branches, we had 14 in North and 13 in West. So 27 branches we opened in the North and West only. And last year, to some extent, we have started seeing the benefit of it, because in the last financial year, in FY '25, our North grew by about more than 36%. Okay. And our west has grown by 15%.

So the result is somewhat seen, of course, even though all the branches have not become 100% productive, but still that whatever additions have happened have definitely contributed to the growth of these 2 regions.

Sandeep Kothari: Right. Understood. So the target is to grow AUM at 15%. For that, whatever disbursements have to be done, the internal capacity has to be created. And if you could just talk about the technology piece also...

Suresh Iyer: Sure.

Sandeep Kothari: ... where we stand, where we are. Because you have guided that cost income will go up for a year or so, because of tech investment. But what is it that we are doing with tech?

Suresh Iyer: See, we have currently using a system which is purely LOS, LMS and they have 1 very, very local GL package which has been integrated with that. Otherwise, it's basically an LOS, LMS service provider who was on boarded way back in 2011. And from 2011, the same single product LOS, LMS service provider has been giving us the services. Obviously, that product is quite outdated, and they have some, either it has to be upgraded in a big way or we have to go for a complete shift. We opted to go for a complete shift, because the current vendor was only offering an LOS, LMS. Okay.

So then we went for a Total Bid, where complete new RFP, where not only LOS, LMS, we also required other products like DMS, we required ALM, and Treasury software also. We required a deposit package, because we are a deposit accepting HFC. So, all those things were required. Plus, we also required a major upgrade in terms of our infrastructure, because we were having on a single MPLS everywhere. Obviously, MPLS has its own.

So we wanted to move to SD-WAN technology. So, that was there. We wanted to increase our bandwidth across in terms of this. We wanted a CRM package, some business intelligence package. So, all those things we put into an RFP and that has been closed. IBM has emerged as a winner for this, and IBM is coming up with a LOS, LMS of Pennant, because that was one of our major conditions that the LOS and LMS has to be from the same vendor.

Therefore, the likes of Salesforce, we could not take or could not participate, because Salesforce only has an LOS. It does not have an LMS. So, they are bringing in Pennant for the LOS, LMS; for GL, they are bringing in Infor; then for BMS, they are bringing in Nugen and so on. And IBM is going to play the role of the system integrator and they are going to bring all those things.

Currently, and in fact, last year itself, we already carved out a separate team for managing this transformation that we have pulled out people from all the internal departments. And now, in fact, now that IBM has been finalized and everything, we have also onboarded a couple of people from the branches so that the testing and all the requirement specifications and all is thorough. That also we have done.

So, right now, the process has already started from Jan, mid-Jan and all. And right now some of the tracks are moving faster, some of them are moving as per the schedule, because they are in 2 parts. So we are going to be implementing this entire thing in November 2025.

Sandeep Kothari: So, what efficiency it gives us?

Suresh Iyer: In terms of efficiency, of course, we have also upgraded in the last one year when, of course, the Ambala incident, we already upgraded. So many of the things we have already incorporated in

the sense that we have tied up with Karza for online verification of Aadhaar with verification of PAN from the IT portal, pulling the IT returns from the IT portal, verification of bank.

Now, once this comes in, we will also have some more improvement in the sense that the account aggregator will also be in place. So, we will be directly able to pull the bank statement without the customer having to give it. We'll have a proper DMS. So retrieval of records will also be much faster.

And this will also give us some flexibility in terms of verifying the documents sitting across. So, we don't need to, in terms of manpower, there will be some benefits and all. So, currently, we have somewhere around 7 days, you can say, from the time the customer comes in to the time the first disbursement can take place. I am sure that should come down to around 4 to 5 days. So, that will be about, TAT will definitely improve.

Sandeep Kothari: TAT will improve.

Suresh Iyer: TAT should improve. Yes.

Sandeep Kothari: And did you benchmark yourself against private players or the banks or how were you thinking about?

Suresh Iyer: In terms of the IT?

Sandeep Kothari: IT plus, is it like, it used to be HDFC or GURU at that point in time. Now, it's like Bajaj or how the banks are or how do you think about?

Suresh Iyer: See, we do a peer review in terms of the whatever is their annual year-end results. every quarter, of course, we are doing, but annual we are also doing that to look at that. But most of the players also, we are now putting up what is their tech stack and all. We are also reviewing that. So, I would say in terms of the tech stack, what we have done, even in the current system, the upgrade that we have done in the last 18 months that we have done, I would say probably the account aggregator, we are in the process of tying up. We don't have the digital signature activity for which we have not signed up, which some of the other players are having.

Other than that in terms of the Karza, I think everything is with us. It may not be some of the marquee names like we may not be having the Salesforce. We may not be having big names for some of the things, but we do have the packages which have served us quite well. Of course, now with the IBM thing coming in, obviously, we may also have some of the marquee names, some of the bigger established names as part of our IT stack.

Sandeep Kothari: And if you look at the history, so last couple of years, 5, 7 years, the growth has kind of tapered off, whereas initial years were like phenomenal for Can Fin Homes. It was one of the best performing, not just stock perspective, but just profit and the growth and whatever it was. Are

there any organizational changes or also mindset issues which needs to be tackled or what is it that gets us back to that growth sort of a thing?

Suresh Iyer:

That's absolutely valid because, see, actually from 2011 to 2017, there was a stability in the business in terms of the top, and also in terms of, at that point in time in 2011, the company did come up with a new package, so obviously, that helped in the growth and everything.

The branch expansion was also running perfectly till 2017, okay. Then once, somewhere around 2017, 2018, post the ILFS and all, there was some thought in terms of the change of ownership. Obviously, so the entire focus shifted a little bit. And then in terms, therefore, somewhere, probably, I think we missed the bus, when it comes to technology upgrade. And because I don't think any of the vendors is having a system which is like was established in 2011 and is still running.

Most of them have migrated to the new age platforms and stuff like that, which we missed out. So probably, during all those things that 2018-2019, that focus was different. So this entire thing got more missed out.

The next thing is then COVID happened. And so even the branch expansion and everything was completely stopped for the last 3-4 years, there was no branch expansion. So I think somewhere that is what the impact has resulted in where we are today. But now we have kick started, the branch expansion is back.

The stability part in terms of clarity of what Canara Bank wants, what the parent wants or what the company wants, it's absolutely clear. The Board is also completely now aligned. There is nothing else. it is only purely disbursement and growth and building the book, that is the focus area.

And in terms of technology, 2022 onwards after this, we decided to move to a new platform. So that process of getting a vendor on boarded, we got PWC to evaluate the entire market, the gap fitment, all those things, evaluate the competitive landscape, see what others are offering and what we need to bring in, and then we initiated.

So now we are almost at the fag-end of it, where by November we will be implementing it. So that I think would give a definite kick, because one, the technology will be in place. It will be the new age, latest technology, which will help us to bring in, integrate everything. Second the branch expansion has started. So the additional impact which every new branch brings in will also start coming in. And now the focus in every form is very clear that. So I think the stability, even now as culturally also, I think a lot of changes have happened in the last few years because post all those things now the Board has also come out with the ESOP or the shareholders have approved the ESOP.

Sandeep Kothari:

There is an ESOP.

Suresh Iyer: It is a very small pool. Right now it's a very small pool. Initially the approval from the shareholders was taken for just 1% of the equity. So it's not a very large pool. From that also, the first tranche has been given, but basically it's just small. It is just a fact that over a period it will grow. That's the whole idea. And that will bring in a little more ownership in the senior management. And that is what will make the difference. So that is one major change.

Then in terms of the change from a PSU-led head to a private sector head has also happened, because that also had some impact. That is also very clear.

And the Board is also completely aligned. The Board, the Management and everything is completely aligned on the fact that it's purely now a growth. That's why the Vision document also clearly brought out the fact that we are now moving to a little more, both in terms of profitability, both in terms of growth, how to push growth, that's what it is.

Sandeep Kothari: How important are deposits in the whole thing? You are a deposit taking, not everybody is, although parentages, Canara Bank, the cost of fund is like extremely competitive.

Suresh Iyer: Deposits. We are a deposit accepting HFC, but today the rates that are being offered by some of the say small finance banks or by some of the NBFCs and all

Sandeep Kothari: It is very high compared to...

Suresh Iyer: It is very high, and in fact, we are able to raise funds at a much cheaper rate from the NCDs, even if not NAV even from the banks. Like for example, we have all the banks which are linked to EBLR, except some of it is linked to T-bills. But all our bank borrowings, 80% of it is linked to EBLR.

Now with the rate cut happening, today the banks the rate is effectively somewhere around 7.55% to 7.6% is the total cost of the bank borrowing that we are having, long-term bank borrowing.

NCDs if you look at it today, we are able to raise NCDs in a sub 7.4%, 3 year NCDs. Okay, sub 7.4%. Today the CPs we are able to raise at 6.6% 6.65%, although it's just about 6% of our borrowing side. And whereas if you look at the rates that are being quoted for deposits today, people are giving 8.5% also.

Sandeep Kothari: There was implication, stability, long term.

Suresh Iyer: That is true.

Sandeep Kothari: If ILFS happens or something happens that's when, of course the parentage helps the Canara Bank, but...

- Suresh Iyer:** See in terms of post ILFS or the ILFS, that incident we are talking about, at that time we had a gearing of almost 10 times. We had a commercial paper CP or short-term borrowing exposure or that was almost I would say more than close to 15% or something.
- Sandeep Kothari:** Yes.
- Suresh Iyer:** Okay. So today if you look at our CP we have brought it down to around 7%. 6% to 7% is what is the CP borrowing we have. On the ALM said there has been a definite improvement on the ALM side.
- Sandeep Kothari:** How is the ALM? What is the duration asset?
- Suresh Iyer:** On the asset side, we are about 8 to 9 years, between 8 to 9 years.
- Sandeep Kothari:** 8 to 9 years.
- Suresh Iyer:** 8 to 9 years. Our NHB borrowing is entirely long-term, 7 years and 10 years Our bank borrowings also we are able to get 7 years and 10-year bank borrowings. Of course, there are some short-term borrowings also. So on the short term side if you see, I would say the shortest is about 6% to 7% is our CP, and we have NCDs, which we are right now raising in the 3-year tenure.
- Sandeep Kothari:** 3 years.
- Suresh Iyer:** 3-year tenure.
- Sandeep Kothari:** And from interest rate movement perspective, how exposed are we? Falling rates would be beneficial?
- Suresh Iyer:** Traditionally falling rates are beneficial. But of course, the regulators have been pushing for more of quicker transmission. So we have been also trying to do it that way. So like for example our first rate cut of quarter basis, 25 basis points happened in February. So we started getting the impact in March. So, in April, we saw that we have already experienced 10 basis points benefit on the overall book, on the overall liability side. So we have already passed on 10 bps to our customers, existing and new customers.
- The second rate cut which happened in April, that we should get by around June. So in June, we will be again going for another rate cut.
- Sandeep Kothari:** So, you are passing it on...
- Suresh Iyer:** We will be passing it on. No spread will be 2.5% plus, and NIMS will be 3.5%. So our guidance is around 3.5%, 2.5% and 3.5%.

- Sandeep Kothari:** And then on the asset side, as our long term strategy is to move towards more self-employment from Salaried, changing the mix, and doing more LAP versus Housing. Doing a bit more LAP, right? So even that would slightly benefit when you take a 3 or 5 year view?
- Suresh Iyer:** That is correct, but again, one of the reasons for doing that was also that we were also looking at if we can slightly increase our ticket size more than the natural inflationary rate. Because that is when we will be able to get better volumes, volume growth. So it was more from the growth point of view also.
- Sandeep Kothari:** And cost goes up for a year, and then it stabilizes back to normal or it's ...
- Suresh Iyer:** No, no, after that see, so I will tell you that the math is like this that our per year cost from FY '27, for this IT upgrade would be around INR 60 crores. Currently we are almost spending INR 15 plus crores for the current IT setup. So that obviously, there will be a sunset for it. So that net impact will be about INR 40 crores. Today our total income is around INR 4,000 crores. By end of FY '26, it will be a little more than that. So INR 40 crores if it is getting added, then 1 percentage point. But that INR 40 crores is going to be the net impact for the next 5 years.
- Sandeep Kothari:** Every year INR 40 crores.
- Suresh Iyer:** Every year INR 40-40 crores. So as my book grows, as my income growing, this impact will slightly start coming down. So for a year, it may go up by 1%, thereafter it will slowly taper down.
- Sandeep Kothari:** Taper down. And with the growth strategy the credit cost, how should we think about that?
- Suresh Iyer:** Credit cost, see even this year for us was about 13 bps, excluding the management overlay and we are very comfortable, 15 bps I don't think we need to plan for more than 15 bps.
- Sandeep Kothari:** So 2.1, 2.2 ROA will sustain.
- Suresh Iyer:** Will sustain.
- Sandeep Kothari:** And we have a leverage of about 8 times.
- Suresh Iyer:** No, we have a capacity to go up to 8 times, but presently we are below 7.
- Sandeep Kothari:** Yes, we are below 7. So CET 1 is more than sufficient for support the growth, we don't need capital.
- Suresh Iyer:** In fact, as I said, the rating agencies are also comfortable at up to 8. But even up to 7.5, we have a capacity, which means today we can still grow a little more.

- Sandeep Kothari:** 15% growth, if we maintain the ratios, we really don't need any capital.
- Suresh Iyer:** Self-sustaining. Self-sustaining.
- Sandeep Kothari:** We can sustain the 15% growth.
- Suresh Iyer:** That is true. That is true. That is true. The only thing, for our retail investor, we have increased our dividend But we have now reached close to 20% payout, which is what is the policy or the intent that we have that we would like to have a 20% dividend payout ratio. So the last couple of years, we have increased it substantially from something as low as 5% to 6% as a dividend payout ratio, to now 20%. So now this is...
- Sandeep Kothari:** So 20% dividend payout, 15% growth, if we are able to maintain these ratios, should be able to sustain this for a long-term perspective that's the broad...
- Suresh Iyer:** Correct. Yes. Correct.
- Sandeep Kothari:** And generally on the sector, if we see, either the Housing Finance companies have been small, except Bajaj Finance, which is now -- and they are into the higher ticket size, not exactly where we are. Or it's like the rural housing, the small ticket housing companies, lots of them have mushroomed or the banks, it's there. The other, like LIC is obviously large, or PNB has struggled, and LIC also has been through its cycles.
- Suresh Iyer:** True. True.
- Sandeep Kothari:** And the market is very, very large So how do you see the whole ecosystem evolving? Will it be more private sector driven going forward? Or it's going to be more bank? Or what role do we play? And how do we think about scalability?
- Suresh Iyer:** See, in terms of the private sector players coming in, yes, there is definitely appetite. When the thing goes beyond a point, obviously, they would not be interested in the larger players, because then they all want to put in INR 1000 crore or INR 1500 crore max, and then get hold of a company, and then move on with this bit of a profit.
- But then, beyond a point, as like today, if Aavas were to again go and change hands, it would be a little difficult, because already at INR 25,000 crores, the market cap is also quite high. At this rate, if a PE wants to sell, there won't be so many PEs who would be interested. They would be more interested in investing in a INR 1000 crore company.
- Sandeep Kothari:** Absolutely.
- Suresh Iyer:** It has to be the bigger banks who will have to play the role. I think the direction is also very...

- Sandeep Kothari:** Why would banks buy such companies?
- Suresh Iyer:** The smaller ones?
- Sandeep Kothari:** Yes.
- Suresh Iyer:** The smaller ones, they would not buy. I am saying, once the bigger ones will have to eventually, like HDFC did, it merged with the bank.
- Sandeep Kothari:** Yes, but that was a special case.
- Suresh Iyer:** It is a very big case So, that is what it is. They will have to merge it or become or grow into that.
- Sandeep Kothari:** So, liability will be a constraint at some point.
- Suresh Iyer:** At a very larger scale. Maybe today we are in currently much better position, and of course, with a much larger book, if we don't have the banking or if we don't have the retail investor as you rightly pointed out, the deposit space...
- Sandeep Kothari:** The deposit has to be started at some point in time.
- Suresh Iyer:** ...then it would become a bit of a problem, at a very large scale. Today, of course, that INR 38,000 or even...
- Sandeep Kothari:** Up to INR 1,00,000 crores, it should be...
- Suresh Iyer:** It is not a problem.
- Sandeep Kothari:** That's what has been the worry for the market and for everybody, because such a great history, and last couple of 4-5 years has been like. But the thing about selling Can Fin is totally off the table now.
- Suresh Iyer:** There is no...
- Sandeep Kothari:** Monetization is a possibility.
- Suresh Iyer:** As of now, there is no....
- Sandeep Kothari:** It is a good price. 35,000 is a great asset, the Self-employed, not many do in this ticket size.
- Suresh Iyer:** Without having to bring in any additional capital, if the market cap and everything is growing, I don't think, why would they want to do it? In fact, this discussion or whatever about selling Can Fin also came in only post-ILFS, when the government was pushing all the banks to offload their subsidiaries, bring in the capital on the parent bank. Okay, but today the situation is completely

different. Banks are in a much, much stronger position in terms of their ability, in terms of profitability. So, I think today that situation to worry about it is not, the capital for the banks also is not a problem.

Sandeep Kothari: So, the constraint is mostly internal. Tech being one which has been impressed. Hiring and opening branches is the second. And it is just about everything else is aligned from a leadership to Board.

Suresh Iyer: Correct, correct. From the Board, down right up to the bottom, we are kind of the same messaging, the same kind of focus is what is happening. Of course, the people have been in a closed approach for a few years. Obviously, getting them back on the drive mode is a little bit of an issue, but that also is a progress which is happening. And once it is aligned, the complete chain will be on the single direction.

Sandeep Kothari: And the tenure for the current CEO would be?

Suresh Iyer: Presently it is 3 plus 2. So, 2 years are over, 1 more year is left.

Sandeep Kothari: 3 plus 2.

Suresh Iyer: And then for the next continuity, they will have to go back to the Board. And once the Board approves, it will have to go to the shareholders.

Sandeep Kothari: So, 1 more year will be there, and then the extension.

Suresh Iyer: For the first term, and then extension of 2 years. Yes.

Participant: Just on the branch economics, how much time it takes to reach maturity and say breakeven rate?

Suresh Iyer: For breakeven, you need to have a book about closer to INR 25 crores. The normal way it happens is in the first year, the branch should within 6 months reach a disbursement of about INR 75 lakh per month, and in about 18 months' time, it should reach about INR 1.5 crores. And by the end of 2 years, they should be back to around INR 2.5 crores, which is where the stability will come.

Participant: 2 years.

Sandeep Kothari: And usually in branch, you have about number of staffs would be including the salesperson, it will be 5 to 6 persons?

Suresh Iyer: No, we don't have a sales separate. Only in select places it is there. So, we start the branch, obviously, it will be a small branch, so we will start with a team of 3.

Sandeep Kothari: Okay. Right. And then disbursements and credit, everything is like a centralized system or you look at each branch, each region wise separately. So, it is a decentralized model?

Suresh Iyer: It is a decentralized model because every branch, depending on the grade and everything, will have sanctioning powers. Normally, we don't give in the first 2 years. But once it is a manager and with more than 2 years or something, we do give the powers. And we also have a central monitoring, which is a credit monitoring department, CRM department at head office. So, every case which is sanctioned at the branch is reviewed by the CRM department. So, therefore, there is a double check also there.

In terms of the legal and everything, we have a local empaneled advocates and valuers who do the legal vetting and the valuation reports for us. And the rest is of course system controls are there. Now, we have another zonal office concept also. So, the branches like Telangana is one zone, Karnataka is one zone, Tamil Nadu plus Kerala is the third zone, East and AP, plus East is 4th zone and so on. So, there is a zonal office also.

At the zonal office also we have a team of about 7 to 8 people, who do the monitoring, and who have an oversight on the branches also. So, over our head office, there is a zonal office also which has an oversight on the branches.

Sandeep Kothari: That's the distributed model.

Suresh Iyer: That's the distributed model.

Sandeep Kothari: If the new tech platform does anything change; it gets more centralized or it remains the same...

Suresh Iyer: No, it will remain decentralized because I think our USP is that we have local sanctioning powers, unlike banks and all the local where we know the sales people pick up the file, but it goes to operations department, then the CPA does the file entry and checking and everything, then it goes to credit, sitting somewhere else. So, the customer doesn't know what is the eligibility? When it will happen? How much time it will take? There is this one sales guy who is there on the front, whom they interact with. So, in our case because our local person is able to give the confidence that yes your case will be done, that is what is the biggest advantage that we have. So, that will not change.

But the processing obviously can be faster. The workflow can be changed. It is more modular; we can keep changing. So, all that nimbleness can also come in, in the new module.

Sandeep Kothari: And visibility on a 20% growth in disbursement, how much confidence is there for FY '26 to get that 14%-15% AUM growth?

Participant: Just to add to this question, like the issue that we face in the second half of the last year, of Karnataka and Telangana, right? So, how are we placed now with those two states?

Suresh Iyer: And I will answer both together. So, the thing is you know we have 6 zones. Last year we just mentioned North zone, we had a growth of over 36%. Tamil Nadu plus Kerala put together we have a growth of about 25% plus, and West zone also grew at 15%, okay.

Karnataka which is another large market for us or the largest market for us was growing at 20%, but then there was a hiccup and because of this e-Khata issue, but now again they are back on the growth path. And May is definitely better than last year May, April was better, and so on and all, and it is definitely better than April of this year. So, the growth is coming back. So, Karnataka should be back to this 20% growth in this year.

So that leaves only Telangana, where we have already reached the bottom, so even if it continues to be at that pace, it will be just INR 100 crores a month they are doing. So, 100-110-115. So Just about 10-15 delta, which will make an impact. And the rest is East which is a very small market for us.

Sandeep Kothari: East is very small.

Suresh Iyer: Very small market for us.

Sandeep Kothari: What's going wrong with AP, Telangana. It is not just you guys, like a lot of discretionary companies talking about slow down, particularly in AP, Telangana, is there something...

Suresh Iyer: Housing, I will tell you, for us the major issue that happened was after the TRS government lost and the Congress government, even they set up a department called Hydra. That department went on reviewing all the project approvals given by the previous government, and then they started demolishing also, because some of the approvals were given on government land or on lake beds.

Now end customer purchased it based on approval from a government body only. So it is not the customer's fault that. Or it was somebody in the office of the approving authority. But they went about demolishing the properties. So that then led to a lot of negative sentiment. And lot of people during that initial phase, we also witnessed some of our customers who had booked some flats saying that boss, we are cancelling our booking, please cancel our loan, and something like that.

Some of the you know builders also they started approaching, please can you refund the money, and we want to cancel it. So that sentiment is what affected more. Not only that, because of that what has happened is some of the builders is there. So the churn of money also there was a slowdown in that. There was a slowdown in that.

Sandeep Kothari: Because of all of these issues.

Suresh Iyer: Plus, of course, the micro financing came in, and that also got impacted.

- Sandeep Kothari:** It is still not settled you are saying. It is still INR 100 crores, you are not thinking of much growth over there.
- Suresh Iyer:** We were doing about INR 180 to INR 200 crores at a peak point in time. From there we have come down to 100. I am not looking at about 180, at least not in the next 2 years.
- Sandeep Kothari:** Next 2 years.
- Suresh Iyer:** Next 2 years. At least we would now like to gradually at least move from 100 to 110, 115 a month. Maybe next year about 125, 140, and then we will see.
- Sandeep Kothari:** 10%.
- Suresh Iyer:** Yes. Somehow the state if you see, every 3, 4, 5 years, there has always been one issue in the state of Telangana. Even that first issue of micro finance that happened, happened in Telangana. Now this has happened in Telangana. Now one by one something or the other keeps coming where the sentiment gets affected negatively.
- Sandeep Kothari:** AP should be taking off it seems. A lot more is happening...
- Suresh Iyer:** AP now is looking very positive. Let me tell you after this Chandrababu Naidu government has come in, a lot of investment is also coming in, and of course, the central government support is also very much there, because he is on the same. So basically that state will develop.
- And another point about Andhra Pradesh compared to Telangana is till June 24, there was a common capital, Hyderabad. Now they have separated it. Now, whatever 10-year period of this is over.
- So now all the decisions have moved to AP only. It has nothing to do with Hyderabad. So that is one thing. This government is also positive, plus unlike say Telangana, where if you remove Hyderabad, there is nothing left in Telangana. If you remove Bangalore, there is not much left in Karnataka also.
- Unlike that if you look at Andhra Pradesh, it is an all-round development. For a small state of that size, there are 6 airports. And the government is doing some investment coming in Tirupati, some investment coming in Visakhapatnam, some investment coming in Vijayawada, something happening. So across everywhere there are something or other, something in Nellore. So that is one positive thing about the state that it is developing at multiple points.
- Sandeep Kothari:** Very distributed in multiple points.
- Suresh Iyer:** Another state like that is Tamil Nadu. So Gujarat, Tamil Nadu, and Andhra Pradesh, these have that similar feature.

- Sandeep Kothari:** And last question of just the property cycle. Because if you look at all the building materials companies, they have also gone through a very severe bad cycle. So some organized players have seen growth. I don't know it is a single-owned housing, which from a Self-employed perspective you would see. How is the real estate cycle picking up or not picking up kind of plateauing?
- Suresh Iyer:** Bigger cities actually are still witnessing, some like Hyderabad they are talking about. Of course, now Hydra department, there is some slowness in that. Bangalore is still witnessing increasing property prices. Bombay also is still witnessing...
- Sandeep Kothari:** And volumes are happening perfectly.
- Suresh Iyer:** Yes. Yes. Yes.
- Sandeep Kothari:** You are seeing new launches and volumes.
- Suresh Iyer:** Absolutely, absolutely. Absolutely we are seeing so many new launches, and earlier it was, even today if you look at it there is so much, of course, some of it is all because of whole real estate, and lot of speculation, lot of futuristic things only. Like for example, now they are talking about another airport. So there is lot of speculation whether it will come here or whatever.
- Sandeep Kothari:** Bangalore?
- Suresh Iyer:** In Bangalore. So, they are talking about...
- Sandeep Kothari:** Hosur?
- Suresh Iyer:** Some are talking about Hosur, some are talking about Nellamangala side, that side also. This guy is pitching for something in South Bangalore, because D. K. Shivkumar has this thing on the south. Now in fact recently they have now said that Ramnagar district will be renamed as Bangalore South. They have recently done it 3-4 days back only. So that is also going to bring in some development over there.
- North, obviously, because of the proximity to the airport. Now North it is a completely very hot property, North Bangalore because of its proximity to the airport. So Whitefield and all is still there, because IT is still there. But now it has been overtaken by North Bangalore, which is growing faster and prices and all if you look at it.
- Sandeep Kothari:** Moved up quite a bit there.
- Suresh Iyer:** Quite a bit. Quite a bit. 2019, the property where I was staying, means the landlord purchased at around INR 1.9 crores, today it's quoting at INR 7 crores. Because there is a new metro junction, which is coming up, close to about 100 meters from there.



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- Sandeep Kothari:** So things are looking reasonably good for us to do a 15% sort of a growth, which is not too fast of 30%-35%, and picking wrong credit. We have the capital. It is just about technology platform, internal mindset of the last 5-7 years, and get back to growth sort of cadence basically. That's what...
- Suresh Iyer:** Absolutely. Absolutely.
- Sandeep Kothari:** Right. Thank you so much.
- Suresh Iyer:** Okay. Thank you. All the best.
- Sandeep Kothari:** Really appreciate.