



“Can Fin Homes Limited Conference Call”

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

Interviewer: So sir, first question is obviously on the growth side. So like we have been talking a lot of time about reaching that Rs. 2,500 crores plus disbursements. But when we see like in the last 3 years, there have been only 3 waters where we've actually managed to reach that number. And even if I assume that we are able to do Rs. 2,500 crore disbursements every quarter, the growth itself is not that great. So what is our assumption here? What are we looking at in terms of growth and probably where or which geography is giving us that confidence that probably we might achieve it?

Suresh Iyer: Going back on the previous 2 years actually, if you see that it began well but this post-Ambala, we had to actually spend a couple of quarters, in fact 4 quarters we spent which will take a year and we focus on the processes, internal controls and all those kind of things. Then the growth started coming because we were done with most of the things and we said the rest will be ongoing, but at least we can focus back on business. So H1 of last year, we started again doing well. If you see, H1 of last year, September 2024, we ended up with about 18% growth. That was what we had reported, but Q2.

Interviewer: Q2?

Suresh Iyer: Yes, Q2.

Interviewer: 18% AUM growth?

Suresh Iyer: No, disbursement growth.

Interviewer: 18%.

Suresh Iyer: That was 18% AUM growth was there. That's what we said we will grow this back on track. Because the steps that were required for business growth was already being put in place. Like for example, branch expansion was initiated. The staffing, we had started improving the staffing. We had started recruiting and all those things. We had started putting the internal processes that are now in place. So everything was there for business to start coming then Karnataka unfortunately hit. So that again whatever was growth got pulled back. But having said that, the rest of the regions which were there like for example our North zone last year had a 36% growth over FY'24. Tamil Nadu, which is Tamil Nadu and Kerala had a 25% plus growth over FY'24. West Zone, which is 4 states, has had a 15% growth. But for this issue in H1, Karnataka was also growing at 20%. So 4 of the major zones, Telangana of course had dropped and we had factored in that drop into our predictions. Karnataka is where we got hit because if that had not happened then we actually lost about Rs. 550 to Rs. 600 crores of disbursement last year because of this eKhata issue because we were doing Rs. 275 crores per month in Q2. It came down to Rs. 150 crores. So almost about Rs. 350 to Rs. 400 crores we lost in Q3. And Q4 again it was only Rs. 200 and Rs. 300 that we did. So basically there also we lost about Rs. 150 to Rs. 200 crores. So approximately Rs. 550 – Rs. 600 crores business we lost because of that Rs. 600 crore

happened, we would have, all growth would have been almost 13%-14% in terms of disbursement growth and our AUM growth also would have been in double digits.

Interviewer: Even if I assume say that 16 this number right, it's not going to materially change the disbursement number when we see like the Rs. 2500 odd crore benchmark or the threshold which you are not able to cross that is still struggling right on a consistent basis. So there may be on and off quarters, but it's never been a consistent thing where we've been able to report say Rs. 2500 odd crore of disbursement at least continuously...

Suresh Iyer: Consistent 2 or 3 quarters kind of..

Interviewer: Correct or maybe 18% growth which we are talking about for that which is necessary.

Suresh Iyer: So what as I mentioned, the key reason why the second part of the question why we feel confident is that you know North is continuing to grow at the same rate even this year in the couple of months that we've seen. Tamil Nadu also continues to grow at the same rate. West is also positive even in these 2 months so the same rate is there and Karnataka has started doing positive. The other is Telangana which is flat but it is a smaller number for us and East anyway is too small where it doesn't make any difference. Anyway can't. So the four major markets which are there would be Karnataka, Tamil Nadu, West Zone and North Zone which are consistently doing well and therefore the growth will continue to come.

Interviewer: So Karnataka, Tamil Nadu, West Zone and?

Suresh Iyer: North Zone. North Zone is basically Punjab, Haryana, Delhi, UP, Himachal and Uttaranchal.

Interviewer: So between this if I can understand Karnataka was already growing at 20%?

Suresh Iyer: In H1. But it dropped down because we...

Interviewer: So let us take H1 case only for example if I take the same thing. So for us in H1, so for H1 also, our growth was overall not that significant, right? If I'm not wrong. Our growth was almost 9.5% in first half.

Suresh Iyer: In AUM?

Interviewer: Yes.

Suresh Iyer: Yes, but if you look at the disbursement in...

Interviewer: So that was only Q2 which was 18%.

Suresh Iyer: Even Q1 was just about 18.5% as against, so basically.

Interviewer: It was negative actually if I remember.

Suresh Iyer: So we had a 18% growth in this and that's where we said one year got over in July and all and we said no, we will we have to everything that we have to implement was has been done and we saw growth in Q2 and if you see Karnataka consistently in Q2 last year did about Rs. 811 crores last year in Q2.

Interviewer: No, because I was just trying to find where did we miss which is expected to come back and probably give us that kind of growth. So Karnataka was one, maybe in first half if I see, Karnataka was 20%, North was 30% plus, West was also 15%.

Suresh Iyer: West was...

Interviewer: 15%.

Suresh Iyer: Throughout it has said, these zones have gone.

Interviewer: So the only challenge was Tamil Nadu.

Suresh Iyer: No, Telangana.

Interviewer: Sorry, Telangana was the only challenge.

Suresh Iyer: Telangana last year was a challenge and it consistently was a challenge because last year in Telangana we ended up with a 30% negative growth. We did about Rs. 1700 crores disbursement in the year before that, 1727 or something. Last year we did just about 1198, so that's about Rs. 530 crores kind of negative we had in Telangana.

Interviewer: Okay, and sir, if I remember correctly, initially when we had started, we also said that we would be focusing on repayments because even a 1% repayment improvement helps us a lot in terms of even growth. But if I see like in the last 2 years, we haven't actually seen that kind of improvement in our overall repayment rates. So how should one look at it incrementally or what is that we were not able to...

Suresh Iyer: BT outs, we have been able to contain. It's continued to get around 3.5%-4%. But part payments we tried to restrict it to the customers. We tried to put in some kind of a thing that we will not put more than 3 EMIs. We will not accept and things like that. But from the customer point of view and from the same, a lot of customer complaints also started coming. So we could not actually do what we expected and it was not in the customer interest also to stop it. We tried to educate the customers to continue the loan. But that has not helped. In fact, prepayments or part payments in fact is a sizeable amount. Today if you look at our 15% which is prepayment, part payment plus amortization, then about 4% would be amortization. So that's about 11% is the part prepayment and full prepayment. Full prepayment would be BT out also. So that's almost

the major component about 7% to 8% is the part prepayment where customers are making excess payment to us. And October 20 and earlier what happened was we used to also carry a little bit of customer money as advance EMI because customers used to make advance payments. So suppose the EMI is 17,200 they would make 18,000 transfer. So small amounts used to remain as balances and only if it was more than 3 months or something, we would convert it into a prepayment and give the benefit in the principal. But in between that guideline also came that any excess money you received, you have to give credit to the principal or you cannot keep it as an advance. So you cannot keep an advance EMI. So now that completely impacted us because we wish to have that excess amount lying with us that used to help us in our charges. Like for example if one customer's check bounces, we add some excess, we could always adjust that. Customer would pay the EMI back but not the charges. So we could always adjust the charges in the excess. That helped us in our Q3 when our SMA-0 went up substantially. So we have to completely change our communication with the customer. Advanced notices, we change the communication; calls we increased. Whenever our staff meet the customers, they would say this is the thing if it happens, you have to pay immediately the call that would be like okay, you have to pay please remember you have to pay with charges so that change in communication had to be done in Q4 and we were able to recover. So the entire 2593 which shot up to 2593 came down to 1800 crores in SMA-0.

Interviewer: So then this will remain at similar rate only then right?

Suresh Iyer: Kind of, kind of.

Interviewer: So going forward if I assume from the 5% kind of disbursement growth where we were in FY'25, probably even if we do a 20% disbursement growth but with that 15% repayments which is there right now, we would not be able to cross that 10%-11% kind of AUM growth.

Suresh Iyer: No, no, I'll put it this way. So today we have to do 15% is the prepayment. So on my total book of Rs. 38,000 crores, 15% which is somewhere around Rs. 5,000 odd crores.

Interviewer: 5,800.

Suresh Iyer: 5,500 is what will be coming back to me as a repayment. Now if I have to do another 13% growth on 38,000, then I have to do another Rs. 5,200 odd crores, I have to do more. So which effectively works out to around Rs. 11,000 crores, Rs. 10,500 plus crores.

Interviewer: So that is what, so Rs. 10,000 odd crores of disbursement and Rs. 5,800 odd crores of this thing, repayment. So net-net we add almost 11.5% to our AUM.

Interviewer: No, no, if we do about 15% is our repayment then it comes to and 13% growth, so on 28% of my book I have to do as disbursement. So on Rs. 38,000 crore, Rs. 38,200 crores 28% of it works out in 10,600 and something, 10,700.

Interviewer: So that 10,600, 700 is 23%-24% is disbursement growth?

Suresh Iyer: Yes, growth. We'll have to do 10,500 plus we'll have to do disbursement.

Interviewer: As of now, when the situation is, we were quite confident that we would be able to do or this still implies a lot in terms of where the macros can still impact us perfectly.

Suresh Iyer: In terms of macro, I mean if Karnataka improves, then there is absolutely, Karnataka is improving but I saying this is only the BBMP areas but in the panchayat and all if it improves, then there is no issue at all because Karnataka right now also is pushing with change shifting the. We are not still doing much in the panchayat area which is our stronghold. We are shifted a little more to the BBMP areas and we are doing a little more of LAP. If this also opens up, Karnataka will definitely do much better. And with West, North and Tamil Nadu continue to grow at the rate at which they are growing. Definitely then there will not be a problem at all. But even without that, we are looking at about 10,500 kind of disbursement this time.

Interviewer: Next, we are looking in terms of housing and non-housing?

Suresh Iyer: Currently it is 70-30. This year I think it will be a little less. Housing, non-housing would be around 68 or something. I think it will be below 70% definitely.

Interviewer: And non-housing would largely be LAP?

Suresh Iyer: Top-ups also because many of our existing customers also come back for a top-up and...

Interviewer: Sorry, housing, non-housing you are talking about salaried and non-salaried, less than 70. You may be talking about salaried and non-salaried?

Suresh Iyer: No, no. Salaried, it is today at 70. You are talking about housing, non-housing you want.

Interviewer: Housing is still at 80.

Suresh Iyer: So, housing is 76%. Housing is 76 and CRE is another 10%. Housing plus CRE is 86%. So you want housing, non-housing?

Interviewer: Yes.

Suresh Iyer: Housing would continue to be 85%. Including CRE will be 85%. Definitely 80% plus. Our LAP and all is not...

Interviewer: What would be the difference in terms of yield for CRE housing?

Suresh Iyer: CRE is not (Inaudible) 13:26 because it is basically housing only.

Interviewer: But still we would get a 15 bps of benefit. And in general when you classify this as housing and non-housing, what would be?

Suresh Iyer: We classified as CRE separately, non-housing.

Interviewer: So what would be the difference between the way you classify in terms of housing and non-housing?

Suresh Iyer: As I said, today my housing starts from 8.85% rate of interest. If the same similar kind of customer comes for a CRE, we charge 15 bps more. That's it.

Interviewer: And the pure non-core which is non-housing?

Suresh Iyer: If it is LAP, it is half a percent higher. If it is SEMP LAP, it is actually 1% higher because SEMP is half a percent higher. On top of it, LAP higher. So if a housing salaried customer is X, then non-housing SENP.

Interviewer: So 8.85, 9 and then 9.35 and 9.8.

Suresh Iyer: 9.8.

Interviewer: Okay. So in the current scenario where we are assuming we have already seen a 50 basis point of rate cut and now it's taken another 50 basis point. How should we look at overall passing on this to the customers? This is one. Second is in terms of funding cost. How do we see that benefit coming to us and overall how will it impact the margins?

Suresh Iyer: See, margins will not be impacted because we will pass on to our customers only after we experience it. So February there was a 25 bps reduction. We started getting the impact in March and somewhat in April. So in April, although we saw that we had already experienced 10 bps reduction in our cost of borrowing or overall cost of borrowing. So we passed on 10 bps to our customers. The 10 bps that we have passed on to the customers will be in a staggered manner passed on to the customers depending on which month of the quarter of the cycle they followed. Now the April rate cut, we have yet to witness the entire benefit on our books. Hopefully that will also result in another 10 to 15 bps reduction in our cost of borrowings. So that also we will pass on after we experience it.

Interviewer: So the initial one is already witnessed in our cost of funds?

Suresh Iyer: That we have done it from 5th of May. That is not yet seen in our... We have already witnessed the first benefit in our cost of funds.

Interviewer: From May?

Suresh Iyer: Yes. Typically, it takes 3 months?

Suresh Iyer: No. Like for example, we have out of my borrowing, 7% is CP. Then we have 55% is bank borrowing. Out of bank borrowing, 80% of that is linked to EBLR. So on that entire EBLR portion, I witness a 50-basis point benefit. Plus on the CP also, we have witnessed some benefit. But effectively on the total borrowing book, it works out to about 10 bps which we have experienced because on the EBLR linked thing, on the NCD, on the NHB we have not received anything. So on the entire borrowing book, it is up to us to give you 10 bps only that we have witnessed so that we have....

Interviewer: So 25 bps...

Suresh Iyer: Translates to 10 bps.

Interviewer: And that too with a one quarter lag.

Suresh Iyer: You can say 2, 3 months' lag.

Interviewer: Yes, so one quarter would be the right assumption.

Suresh Iyer: So February it was announced, we witnessed it in March.

Interviewer: So the end of the year, this financial year...

Suresh Iyer: We can expect a 40 to 50 bps..

Interviewer: Benefit in terms of cost of funds.

Suresh Iyer: In terms of incremental borrowing, which was your next question, I'll just give you highlight. In March, we raised NCDs at around 8.18%. Today, we have been receiving bids for 3-year NCD at sub 7.4%.

Interviewer: Okay.

Suresh Iyer: Okay, CPs we were raising at around 7.4, 7.5. That was the rate at which we raised CPs in the month of March and all. Today I am getting CP at 6.6. These are the two things. Third, on the banks, as I said, on 80% of the bank borrowing which is into EBLR, we have already witnessed our 50 bps benefit on our borrowing costs. Like for example, we used to get our borrowing cost at 7.95 from some of the banks, 8.10 at some of the banks, 8.10 has come down to 7.6, 8.95 has come down to 8.45.

Interviewer: So, are you also looking for a change in terms of borrowing mix?

- Suresh Iyer:** Yes, because see some of the NCDF, of course we will have to raise more. NHB, last year we already drew whatever was the maximum limit that was offered to us of Rs. 2000 crores. And the year before that we had not available, therefore last year we put it up on Rs. 2000 crores. But now having availed the full Rs. 2000 crores, this year NHB may not be able to give me such a large refinance limit. Second thing is, banks, some of the banks are because their entire retail book is linked to EBLR, their margins are coming under pressure, NIMs are coming under pressure. So what has happened, that 7.95 has become 7.45, but the same bank is not ready to give you the new loan at 7.45. They are looking at 7.75 because they are also under pressure. So therefore, you know, I might, today, you know, raising NCD is better and two NCDs, today we are raising 3-year NCDs.
- Interviewer:** You are already at 30 right now in terms of market borrowing, CP and NCD.
- Suresh Iyer:** Yes, CP and NCD, but there is a maturity gap.
- Interviewer:** No, but we have already increased it in the last one year.
- Suresh Iyer:** CP, we have not increased. CP 67%.
- Interviewer:** No, NCDs.
- Suresh Iyer:** NCDs, yes. But NCDs we have to raise. Now there is a 2021 guideline where 25% of our incremental long-term borrowing has to come from market borrowing. So it has to be NCD only. So 25% of whatever this year we are looking at somewhere around Rs. 9000 crores as the long-term borrowing we have to do just to meet our requirement, the maturity payments and all those kind of things. 25% of that has to be NCDs. Now today we are looking at 3-year NCDs, so maybe in 3 years some of them are also coming for maturity. But then the best thing to do would be to actually lock the NCDs for a longer tenure in another 6 months' time. Come September in fact, would this year in fact we are looking at, we are just contemplating whether to go with around Rs. 8000 crore of limit from NCDs to the shareholders because you have to take a shareholder approval for that. So we are looking at around Rs. 8000 or Rs. 10,000 crore limits for NCDs from the shareholders because if in September kind of a thing we can say that know that is the time when the rates will bottom out. At that time if you are able to raise long term NCDs and block or raid that is the best.
- Interviewer:** So 5 years, typically 5 years?
- Suresh Iyer:** 5 or even 10 years. We have already done a 5-year paper once, but now we can go for a 10-year paper also.
- Interviewer:** Right now we don't have 10-year paper. This is only 5 years which we would have used. Maximum would be 3-year paper.

Suresh Iyer: Most of it is 3-year paper, only once we have come with a 5-year paper.

Suresh Iyer: Mainly NCDs.

Interviewer: We would have bulk of it.

Suresh Iyer: We raised 2 years and something last year. March what we raised was 2 years and something.

Interviewer: But that was done because the rates were not behaving in the way. So we.

Suresh Iyer: One was the rate was also this. So we said that best is to take for the shortest of periods so that we don't have to buy.

Interviewer: Correct.

Suresh Iyer: That was also one thing. And second thing was to some extent we also felt that that was a better.

Interviewer: So the current scenario you would want to move towards NCDs than the bank products?

Suresh Iyer: No, no. Slightly NCDs are little cheaper than banks. So we are looking at that.

Interviewer: So maybe we would go back to that mix where you know at one point of time like in 22 we were at 45%-47% kind of bank borrowing. Can we go to that range?

Suresh Iyer: Possible, that is possible.

Interviewer: Because we are already at 52% right now.

Suresh Iyer: We could go down to 40%-45%, yes.

Interviewer: So even this mix change can help us in terms of cost of funds. So there was one, you said 40 bps is only directly through banks.

Suresh Iyer: Absolutely.

Interviewer: Second is in terms of...

Suresh Iyer: As I keep saying to them that this is more of a liability; this business is more liability business than an asset business. If you are able to manage your liability or asset, even if my NPA from 0.9 goes to 1.5, some provision will be impacted. But in terms of profitability, it will be much better if you are managing your liability better.

Interviewer: So what could be the one problem in terms of cost of funds? Maybe we can have an advantage of 70-80 bps point overall?

Suresh Iyer: No, no. I mean, we definitely can look at about 40-50. More than that, we can look at, more than 40-50 bps. So today we at 7.5. We would be closer to 7 to 7.10.

Interviewer: 7 to 7.10. And the same working if you...

Suresh Iyer: Unless the rates again see a rise for some...

Interviewer: Right now we are just building in a 100 bps of...

Suresh Iyer: 50 has already happened and another 50 is likely to happen, correct.

Interviewer: 100 bps of rate cut can help us in 50 to 60 bps of cost of fund advantage.

Suresh Iyer: I believe from 7.55 we have already touched 7.4 and some benefit in respect to the second tranche is yet to be experienced and with another 50 basis points, from 7.40 we can definitely look at somewhere closer to 7 to 7.05 or something.

Interviewer: And the same math, see if you can help us understand yields, how it works?

Suresh Iyer: As I said, 25 bps reduction effectively works out to 10 bps for us. So today if it was 10.10, we will come down to around 9.7.

Interviewer: Same working, the 10 bps.

Suresh Iyer: 25 bps will actually work out as only as 10 bps for me.

Interviewer: Okay, so still net-net we would get?

Suresh Iyer: Net NIM spread will not change.

Interviewer: But in the interim, because how faster the assets reprice? It would be immediately?

Suresh Iyer: Assets reprice, and then quarterly today, as of now about 25%.

Interviewer: On this 50 bps, how much?

Suresh Iyer: No, I'll tell you. On the asset side, 25% of our assets are on quarterly reset basis, 75% is on annual reset basis. So obviously there will be a lag in which I will pass on to my customers. Now, obviously, the rates have started coming down. The customers who are on annual reset will now come faster to come and get it repriced, reset to a quarterly reset because earlier we from January 2024 we shifted from annual reset to a quarterly reset, but customers who are already in annual reset didn't come forward for a rate revision or didn't come forward for a reset because they have to do some executions and documentation, they didn't come forward because

the rates are stable. Now that the rates have started coming down, they will come forward and want to shift to a quarterly reset because the rates are coming down.

Interviewer: So we may see bulk of it happening in Q1, Q2 we can see.

Suresh Iyer: We should see more and more customers coming and asking for a rate change from my annual to quarterly.

Interviewer: So the yields will hit us first and then probably the cost of funds advantage will be more towards the end of the year.

Suresh Iyer: We will definitely as...

Interviewer: At the end it may neutralize but in the interim we may see some pressure over NIMs. How does that work?

Suresh Iyer: Because, my passing till the customers don't move from annual to a reset, some customer who has taken in January that is disbursement, next reset will come in January. So although my February repo rate cut has happened, April rate cut happened.

Interviewer: But they will have to move to quarterly reset?

Suresh Iyer: Unless they move to quarterly, their next reset will happen in next January only. So I will continue to enjoy the higher rate of interest for this.

Interviewer: Because I just had a working like I was going through a few working where we had like initially when the rate cuts, I'm not sure if this is visible.

Suresh Iyer: No I can see.

Interviewer: So this was basically how the yields were impacted right from the last rate cut cycle. So the yields were actually dropping faster. When you see maybe a quarter 1 or 2 quarter we enjoyed that benefit but then the drop was significantly.

Suresh Iyer: FY'22. I think there were 2 quarters where the incremental lending was at 6.725.

Interviewer: Because of certain this thing, competition from....

Suresh Iyer: I do not want to comment on it right now.

Suresh Iyer: Post COVID also?

Interviewer: Yes, exactly.

Suresh Iyer: It was not post COVID.

Interviewer: 22, yes. Got it. So basically, no, we were trying...

Suresh Iyer: It was just to get numbers to show. That's it.

Interviewer: Okay, no, because we were just trying to calculate that how overall the housing finance companies behave typically in a...

Suresh Iyer: There was no point in doing the business at that point of time. It would have hit us.

Interviewer: Okay, so this is not the benchmark which we should look at because the rate was...

Suresh Iyer: Certainly not.

Interviewer: Because you can see the rate drop, margin drop, spread drop was like.

Suresh Iyer: It benefited only the customers who took and somebody else, that's it.

Interviewer: Because this is like we were looking at say first Aavas and others' NIM where the margins were quite stable, spreads were. For us, this was not the case, so that was the only concern. I thought it's better to clarify because...

Suresh Iyer: No, it was certainly, it was a wrong strategy because first is, if you're doing that thing to run to do growth, fair enough. But then in that case, the segment also should have been a 6.75 segment. And 6.75, if you're given still to affordable segment where the property values are 20 lakhs and 22 lakhs and give them around 15 lakhs, then it doesn't make sense. It just doesn't make sense.

Interviewer: Got it. So, largely in your opinion, you are saying we may still see some benefit over margins or spreads and what guidance we would have given like?

Suresh Iyer: We have given guidance of 2.5% spread, 3.5% NIM.

Interviewer: So that is likely to be maintained and also in end. And sir, on cost we have mentioned that 26 would be up fronted a little higher because we would be spending a little more on technology?

Suresh Iyer: No, 26, you are talking about IT spend?

Interviewer: Yes.

Suresh Iyer: Yes, so in 26 it will not come. The cost will not come because you know.

Interviewer: It got delayed from 25 also, no? It was expected to.

- Suresh Iyer:** No, no, 25 it got delayed. It got delayed by 25 because the project itself was delayed. But in 26 why it will not happen is because while the project has already taken off and it will get implemented in November, what will happen is that duration of the project is 12 months and the project started in January 2025. So 12-month project is December 2025. And then as per the contract itself, there is a three month of servicing which the vendor will give. So my capitalization will happen till that point in time and my actual cost in the books or this thing will happen. Depreciation will start coming in FY'27 onwards. Same way, the Opex also will start coming in from that point in time. Until that time whatever spending we are doing is going to be capitalized as part of project implementation.
- Interviewer:** But the project will start, it's just started.
- Suresh Iyer:** Project has started; project is going as per on course. In fact, we are scheduled for a November and we are on course for a November implementation.
- Interviewer:** Actually we have seen there were few companies like you would be knowing Aavas and other companies who actually went through this tech upgradation you may say or whatever we might call it as. In that period, it is actually very difficult to that extent even LIC, like LIC Housing, Aavas, all these names, they saw that period had actually impacted growth because when you go through an upgradation there are a lot of things which you need to take care of and the focus definitely is not on the growth at that point of time. For us, again, already we were suffering from that thing, again do we see that, this could be another reason why...
- Suresh Iyer:** One thing is that, Aadhar and all those things, Aavas and all those things, the problem was also because they had a different LOS and LMS service provider. So projects, this implementation issue is always there. If there is an integration between LOS, LMS, the service providers are different. Therefore, when we launched this RFP, we made it very clear that the LOS and LMS service provider has to be the same. There cannot be a change. There cannot be an LOS of this X company and an LMS of my company. It has to be the same service provider. So the integration is absolutely watertight and they can't start blaming each other that my system is working but the LMS is not picking up from here. The LMS says my logic is perfect but the data is not coming. So those kind of issues cannot happen.
- Interviewer:** So we don't think that there can be an impact in today.
- Suresh Iyer:** There will be some impact. We have completely tried to minimize it as much as we can. One in terms of training, one in terms of this LOS, LMS, the same service provider. One, we've already put a separate department or a team in place where we have pulled out from each department a staff and we've already put a team in place last year itself, which is going to oversee the entire thing. The only thing, therefore, that will happen is couple of months before the actual implementation, so probably somewhere around September or may be from 1st of October, we will see some kind of disruption where we will have to give training to our people before it is actually implemented. And two, even after implementation, may be in the month of November,

we may see some kind of turbulence in terms of understanding or things are there. Otherwise if the project is there, data migration, our infrastructure, everything should definitely help. So some of the things like our infrastructure implementation of our SD-WAN and the accreditation of our bandwidth or some of the smaller modules like our ALM, treasury, they are getting implemented earlier. So in first place, when this project, which is going to be implemented in November, there is one first phase, which is in August, where our IT infrastructure, our SD-WAN, all those things will get done. Our service provider in terms of our MPLS and all those things also, we are reviewing and operating that is also going to happen and that will also get implemented in August. ALM, treasury will also get implemented. Therefore, to that extent our GL package will also get implemented in August. So therefore only the LOS, LMS which is the flow data entry part of it is what which will come in over here. So if the migration it goes through very successfully part one and part two, then I think then the logic should not have a problem because again data will come from the LMS. LOS is the same service provider, so that will not have a problem. Any for upfront we have to do any servicing has to be done, that will all get taken care of.

- Interviewer:** And sir lastly coming on your asset quality like in between we did see some.
- Suresh Iyer:** SMA-0 that I mentioned that was because of that regulation and Q4 we brought it back, put it back and...
- Interviewer:** So how should we look at it going forward?
- Suresh Iyer:** It cost 15 bps. Last year also excluding management overlay it was 13 bps.
- Interviewer:** But this was just one time which you said in terms of when your SMA-1 actually went up. So this is not expected, like it's not going to move into your NPA category. We are not seeing that.
- Suresh Iyer:** Our NPA in fact in March did come down and as I said even if it comes down a little bit, I will still stick to an NPA of 0.9%. If you want to factor in, you should work on a 0.9% because the worst case scenario...
- Interviewer:** It is still moving up only if I see. In the last 4 quarters, it has gone up from 5% to 5.5%.
- Suresh Iyer:** So this is basically because we had some restructuring and all those cases also come in and all. But now I don't see much of a stress in this. We have implemented a lot of changes on our recovery also. Post our that thing, we have also implemented on our recovery. So worst case scenario, NPA of 0.9%. The rest is all follow up and all this thing.
- Interviewer:** So NPA is different, but when we talk about stage 1, stage 2 numbers. So there also, when your stage 2 actually goes up, that is an indication that probably you may...
- Suresh Iyer:** NPA will come in.

Interviewer: And this is actually going up from a range where we used to be in the 3% category that 3 initially moved to 4, then now it is at 5%, 5.5% gross stage 2.

Suresh Iyer: Stage 2.

Interviewer: And in this, so we have not witnessed anything specific where our customer segments have changed or we moved into a larger ticket size. We've changed categories or anything. So when the book is entirely stable, at that point we are witnessing an increase in gross stage 2. So what does it indicate like where are we not able to understand the...

Suresh Iyer: Basically what there was some this thing where for things like these kind of things, from the bottom the SMA-0 was going up. That is where basically when the bottom goes up, you have to, some of it will roll forward, that roll forward some part of it or not 2%-3% or the thing will always roll forward. So the cutting from the bottom was an issue because things like this change of guideline and...

Interviewer: Was it which you said that we used to maintain some areas so because of that so it was more of like covering up for the NPA.

Suresh Iyer: No, it is not covering up for the NPA. I mean there were some excess EMIs and there were excess EMIs were being available. Like if you are paying some excess amount available, so if the cheque for some reason bounce also, we will be able to take it. So that kind of flexibility that we had has now gone. But that is the structure of things.

Interviewer: You are a housing company, salaried housing company if I may, 93% gross stage 1 and 7% stage 2 and stage 3 is not like a very good number to me.

Suresh Iyer: No, but if you see there...

Interviewer: It may be there and then you talk about moving to say LAP or probably non-housing, then this number will go up.

Suresh Iyer: I fully agree. I just want to highlight one point which we have made in our presentation when it comes to this.

Interviewer: Because in this...

Suresh Iyer: See, this is a very important point. The SMA-or NPA classification is based on the due date when which falls on the last day of the calendar month. So which means that a February EMI, if it is not received on 28th of February, on 1st of March, I will reflect it as an SMA-0. Now what happens is for the competition, their due date itself is postponed.

Interviewer: It's an SMA-0, but why?

Suresh Iyer: No, the same thing works at every cycle, no? So what is SMA-2?

Interviewer: It will move back or it moves back after.

Suresh Iyer: After 25 days.

Interviewer: Right.

Suresh Iyer: So what is SMA-2 for me or other SMA-1 for me is SMA-0 for them. What is SMA-2 for me?

Interviewer: Rules are common now.

Suresh Iyer: That's one of the points which the regulator has highlighted in the sense that wrong classification of due date is one issue which has been flagged by the regulator now. Because a lot of companies are doing it this way. If you look at the other articles that reporting they want on the last day of the month, they want the reporting and by second every HFC has to do it. It is because of that, because the month ends remaining open. The due date of the EMI, even if it is not received, is not shown as SMA-0, because the due date itself is shifted to fifth of the month. So what happens is, February EMI, if he doesn't pay by 31st of March, then it will be shown as SMA-0. Whereas in our case, February EMI not paid on 28th of February, it will be SMA-0 on 1st of March.

Interviewer: I get your point, but I don't think I agree with what others also, because I remember there was this regulation which changed, so it must be followed by everybody.

Suresh Iyer: No, when you change the due date, you change the due date, no? So it's like saying I'm giving you 5 to check with others. I am not sure. That's why I have...

Suresh Iyer: If you see for last 4 or 5 quarters, I have been mentioning it clearly.

Interviewer: For us this is actually worrying because like Can Fin doesn't have that customer segment where actually your stage 2 should be so high. I can understand if we were doing more LAP.

Suresh Iyer: You can check with NHB and the MD of NHB as to what are his views on the reporting of, you know, an affordable housing finance company which has a 1.3% NPA claims that their SMA-0 plus 1 plus 2, 0 plus DPD is only 3.25%. Once it goes in SMA-0, 50% chances are there that it will become an NPA.

Interviewer: Got it. But for us this should be the norm of 5% to 5.5%.

Suresh Iyer: If you see the last many years, it is a little big because after restructuring it has gone up a little bit, but you will see mine has always been 7%-8% of SMA, 5% of SMA-1, 2 plus it has always been high.

Interviewer: And on the coverage, like we reduced coverage this per.

Suresh Iyer: Coverage per?

Interviewer: Provision coverage ratio.

Suresh Iyer: No, we have made excess provision on this, no?

Interviewer: Stage 3, it was around 48%.

Suresh Iyer: Yes, but management overlay we have done.

Interviewer: Okay.

Suresh Iyer: We have done management overlay. See, this is a pure ECL calculation, purely a scientific calculation, so we cannot do anything on that. Whatever is the figure, based on that we have to report it. But having said that, we have created that buffer of management overlay. Last time we did Rs. 25 crores of management overlay.

Interviewer: And any pending, like we would be doing it continuously or?

Suresh Iyer: Given a choice, we would always like to keep a 15 pages' point buffer.

Interviewer: And currently what is outstanding?

Suresh Iyer: Management overlay, Rs. 59 crores.

Interviewer: Any tips of which is coming as a continuous challenge like after that thing which happened in terms of the branch like fraud, in our monitoring, in our overall audits or something, we've come across certain discrepancies or things have...

Suresh Iyer: Right now, frankly speaking on the (Inaudible) 41:00 in fact there is a much, much better comfort because on the onboarding side now, we have tied up with Karza so our ITR, our Aadhar, our pan verification happens directly from the portal. Okay, in terms of our one thing we adding is our account aggregator. Once account aggregator comes, we will be directly able to pull the bank statement from the customer's bank account. Right now what is happening, customers are giving their bank statement, we are scanning it and uploading it. So sometimes Perfios, which is our statement reading tool, is not able to give us a perfect answer to this thing because analysis, because some of it, it is not able to decipher from the manual statements, which are scanned copies of printouts. Okay, so that's one thing once accounts aggregator thing that is further improved. Two, in terms of the credit side, in terms of our visit and this thing we have done everything with geo tagging. So our property visits everything is with geo tagging even our back. Then comes our valuation part which is our technical side. For that, we have tied up

with Velocity. So Velocity one uniformity of the entire all the reports. Two, Velocity is also able to give us a geo tagged property photographs and everything gets directly automatically directly into the system whereby we don't have to, there is nothing of valuation reports is X value and somebody manually makes a mistake and enters something else. So the valuation issues, everything is sorted out. Then comes the legal part of it. In case of legal, we have again have a maker-checker concept we initiated where one panel will give us LSR and we will collect the documents and they will do one part of the validation of the documentation. Then we have another agency we have tied up with which will uniformly across the company do the verification whether the documents have been collected properly and not what have been mentioned in the LSR report or not and then it goes for documenting. So in legal, we have strengthened, technical we have strengthened, credit we have strengthened all those properties. Other than that, we have gone for automated reconciliation package, vendor management is centralized and it is automated. All these statutory payments also centralized, that is also there. Our expense management also we have now tied up with a vendor, through that we are managing the vendor payment also, I mean this expense management also. So therefore on all these aspects where there is a possibility of the branch we are doing it.

- Interviewer:** What would be the incremental cost like because all these...
- Suresh Iyer:** All these things too, we have already factored in. If you see, approximately if you see from January '24, every quarter our IT expenses were increased by Rs. 3, Rs. 3 crore. So Rs. 1 – Rs. 1 crore every month was the total cost of all these implementations.
- Interviewer:** And the account aggregator and all that?
- Suresh Iyer:** Account aggregator is per report charge that we will load to our processing fee and correct it.
- Interviewer:** But it would not be too much right?
- Suresh Iyer:** No, it is not.
- Interviewer:** You still be doing internal....
- Suresh Iyer:** That is not at all. All these costs are not.
- Interviewer:** Rs. 3 crore per quarter is what we started? And that is going to remain stable or it is expected to increase?
- Suresh Iyer:** No, that is not going to increase because it is on a, we have already AMC and that kind of thing.
- Interviewer:** Got it sir. Fair enough.



*Can Fin Homes Limited
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Suresh Iyer: I would also like to conclude.