

Transcript of Eastlane

Management:

We are recording, so I just wanted to share that we are recording it because we put up all our transcripts on our website. So, for that I just want to, we are just starting the recording, yeah, okay, yeah, sorry.

Questioner:

No, no problems. Another colleague of Abit [Inaudible 0:00:19] from London may join in. He is also a shareholder. We manage money for ArcelorMittal family and they are also part of the, sort of, part of our, I mean, the assets we manage for them. So, he may just join from London, but, okay, so.

So, thank you very much. We have Sai and Jai here, the both come from the [Inaudible 0:00:40]. And we met last time at Nirmal Bang. They are shareholders in CanFin. So, thank you so much once again.

So maybe just wanted to start with one big picture question. And then just take it into a few issues which are more, sort of, short term, the quarter which went back, a couple of things. One is, just going back to your experience of working in a PSU versus private, and how the business model of CanFin you see is different from, it may be [Inaudible 0:01:15] PP&B, or the differentiators, and how do you see those trends going forward?

Just a broad, sort of, very brief thing on that and then we can just take it more into numbers.

Management:

Okay. See, I would not say PNB because it is more private actually than PSU, but LIC, yes. And the thing is, see, in case of a PSU or at least particularly LIC and us, what happens is, our norms are very, very, like banks or like what a PSU would do the lending. So, to that extent, we are a little more conservative in that sense in terms of the lending, in terms of our policies and processes, and that definitely is a differentiator between a private sector and us.

So many times, when it comes to taking a call on certain things, like whether we can take a deviation, like in e-Khata or in particular also if I have to mention, like in e-Khata, whether we can take a call and do the business, there we would be a little conservative and whereas, private sector definitely can take a call, they are empowered and it is a purely risk versus system, it can backfire, but definitely in these kind of cases, there is an empowerment to the management to take a call. So that is one major differentiator, I would believe.

But the positive side of it is, of course, that while, business sometimes can be affected, like we are not in a position to take any call on e-Khata and we are not doing those businesses unless we get the e-Khata copy with us. But what happens is, when any such thing happens, when the downturn or in the economy or when the delinquency, at that time, these kind of conservative policies help us and that is in fact reflected in the fact that for the last 10 years, our gross NPA has never crossed 1%.

In spite of the fact that unlike a lot of other companies which have a well-defined write-off policy that after two years, they write off their NPAs and they take a hit in the P&L and all those things and keep their NPAs under a particular number. In our case, without any write-off like this also,

in the entire history so far, I think there has been only about INR18.5 crores or something that the company has written off and that also mostly in cases which are purely either fraud, some small fraud cases or something like that where we have written off.

Otherwise, even today, we are holding on to certain NPAs which are more than four years, five years, six years as NPA for some reason. You know, maybe a litigation is going on, maybe, some property. In fact, even cases where property is sold off and we are recovering some less amount from the NPA, like for example, our total amount to be recovered was say INR25 lakhs but we could sell the property at INR23 lakhs, that 2 lakhs also is continuing and to show as an NPA in our account, with 100% provisioning.

So, in spite of that, we are, our gross NPAs have been below 1% because, of the conservative policy and the fact that we have not at times taken these kind of calls. Like today, we have this issue in the micro finance sector which is rubbing off into some affordable housing finance companies. Now, because of our lending policies, we are not, we have never done the business of to certain segments where, the exposure is without any income document or the EWS segment, they are there.

So, those kind of segments, we have not been able to do business there. But today in times like today, we are benefited in the sense that we are not affected by the micro finance issues which are coming up or, issues which are coming up in the EWS sector and things like that. So, this is the difference mainly.

In terms of decision making, I think there is not much of a difference in the sense that the board, there are the processes are pretty well laid down. So, we follow, the board is an independent board and all experienced bankers. So, they have all that. So, in terms of all those things, there is not much of an issue. We can definitely run fast. We can take calls, take business decisions.

Like for example, we have taken a big decision of, spending INR300 crores for IT transformation. Now, obviously things like that, unless the board and the, management and all are not aligned and are not taking these kind of calls, it would not be possible and not many institutions today in the housing finance or affordable housing finance companies could take that kind of a call of putting in INR300 crores for IT transformation project.

So, that clearly shows that if required, if, alignment is there, even a PSU can run and do business that way. No issues on that. But yes, the calls at times are there. There are some, it is more process driven in a PSU. And as coming as part of a conglomerate, which is a responsible and Canara Bank promoted entity, of course, when it comes to disclosures, when it comes to RPT and all those things and governance issues, definitely, we believe in 100%, transparency and all.

Questioner:

Understood. And as you mentioned about the microfinance issue, everybody in this quarter has highlighted Karnataka as an emerging problem area. Just your thoughts over there and how does it affect, because Karnataka is the base, the largest part of all this.

Management:

Sure, sure. No, I understand. See, as I just mentioned, because a couple of other, calls also, we had the same questions coming up and very, very rightly so also. But the thing is, as I said, we are, our ticket size is INR24 lakhs incremental also. If you see for the last two years, our

incremental business disbursements are in the range of INR24 lakhs average ticket size, for housing. And we have very small LAP book where we do not have much of a LAP.

So, today when you talk about the microfinance segment, our customer average salary, if you look at it, if you have say INR24 lakhs this thing, they definitely have an income of more than INR6 to INR7 lakh annual income. That is the kind of segment that we are catering to, INR50,000 salaries, then only they would be able to give a INR20 lakhs, INR24 lakhs loan to them. So, that is the kind of segment we are catering to.

So, they definitely are not the segment where there is an overlap or even if at all it will be a very small percentage that there would be an overlap with microfinance customers where our customers would have taken a microfinance loan. PL, yes, but not microfinance loans. Our, there is very, very little overlap with that.

So, it is not in fact, rubbing off into our customers per se. In fact, in Q1, our absolute delinquency in SMA 0 has actually come down from our March number. March obviously is a quarter where numbers do come down and so in March our delinquency came down from what it was in December in absolute value, but I am saying even in June quarter, our total delinquency has come down from our number in March, which is normally not the case in Q1.

And this particular trend of reduction in SMA has been witnessed across all our geographies including Karnataka. So, it is not that west or north has the delinquencies have come down and Karnataka has increased. In fact, even in Karnataka our delinquency has come down and you know SMA 0 has come down, SMA 1 and SMA 2 have been steady compared to what was in March, which means even the flow has not happened that much.

So, that is basically the kind of situation, but some of them I have highlighted obviously because some of the affordable housing finance companies who are dealing in the INR10 lakh, INR12 lakh, INR15 lakh segment, there, there could be some overlap of the customers. And another thing is you know there are definitely some pockets in Karnataka where microfinance has been very strong, where the social impact and all those things is definitely there.

There some customers have obviously in such a situation would have tried to take advantage of this and complained and police also would have been compelled to take some action on those kind of recovery practices. So, I am sure that some of them would be facing problem and it is fair to say that frankly among the staff also sometimes when you go to those kind of segments where you know some incidents have happened, there is a general reluctance to go to those levels for areas for recovery also.

So, I would not be surprised if that also has probably impacted for some of the players.

Questioner: Understood sir, understood. So, that brings us to the growth question. You know for the 20% disbursement growth, we need to do INR10,000 crores of disbursement given 15% runoff in the book.

Management: Correct.

Questioner: We are in distribution, we are sort of seeing things and we have an IT transition starting from November. How much of a disruption IT can be? We have seen in other organizations when an IT transition happens, it takes time to settle down and absorb and we have to have that growth and e-Khata is still a problem, Karnataka is facing not in our segment but some problems, Telangana is slowly coming up.

How do you think about growth? How are you thinking about growth and maybe driving that 20% disbursement?

Management: See, in the month of May and June, if you look at it, we have been close to INR800 crores kind of run rate in our disbursements. So, therefore, April of course is a month where it is very slack after the March number. Normally, April is very, very slow. We had just about little more than INR400 crores disbursement.

So, that in fact is the reason why our disbursements in Q1 were about INR2,000 crore plus. But we are hitting kind of a INR800 close to INR800 crore run rate in May and June. So, therefore, what we are targeting for this quarter that is Q2 is around INR2,500 crore disbursement which like even if you do INR800 crores, it will be somewhere there about.

And then in the second half normally with the festival season picking up and all, normally second half is about 55% of the annual disbursements happen in the second half and 45% in the first half. So, therefore, in Q3 and Q4, we can definitely expect a little more jump. But of course, there is a November month IT transformation which is expected.

So, basically our IT transformation project we signed off and gave the contract in the month of December 2024. Documents and all were executed in January end and all. So, basically from January 2025, we are already in the process of our IT transformation project in the sense that the fit gap analysis, the documentation, the masters, product details, all those things which are required for along and migration and some infrastructure related activities like SD-WAN and all we are doing, those things are already going on effective from January 2025 onwards.

And we have almost seven months into this project transformation today. But actually, we have not had any impact on the branches because last year itself, we carved out a separate team called project implementation team with staff from different departments as well as a couple of staff from the branches for the requirements and all. And they have been working separately.

We also have a separate project office which is away from our normal branch, our head office also a little close to this. A separate office where this entire project work is going on where the IBM team as well as all the staff from the OEMs that is Pennant, Workline, New Gen, Infort, [Inaudible 0:13:23] all those people who are actually providing the various OEMs who are there, they are also sitting and doing this work.

So, there is a separate team itself which is doing it. The only impact that will happen is when in somewhere around post-September is when we are planning to start the training modules. So, some staff will have to be pulled out for the training, for the batch by batch we will be doing these trainings. So that time some staff will have to be pulled out for this. And two, when in the first week of November we are planning to do a big bang implementation, at that time we will

have to do the, some week or two weeks or something will be happening where the staff will have to get involved, the old systems will then be, maybe one or two days of shutdown before we transition to the new system.

And because we are also moving from Azure to AWS, so those two, three days will be definitely one place where this transition will impact our, this thing. And if the fact that the training, everything is already, we are working on the training modules and all, we will be starting it from the first week of October.

So, what will happen is, we expect that the transition or the new system will not be very very different. And so far, the project has been going on smoothly, so I don't see any reason why there should be any disruption where things will not work or there could be some data migration issues or anything. Because already it is going on fine.

So that's the kind of plan. We already have a separate team which is doing all the work. So, the only branches or the field staff will get affected only when there's a training and when the big bang implementation happens. So that's the thing. So, I expect that if everything goes fine, then by 15th of November or something within a week or 10 days of this, we should be able to transition and go ahead.

Questioner:

Understood, understood. And this, as you have highlighted, increases cost to income for this year and next. Like the benefits of IP rollout, more smoother, expansion, etc. etc. All of those things start getting visible. So medium, just 20% sustenance of disbursement which we are sort of talking about this year at 10,000 group or we'll do 12 and so on so forth. How confident are you, like, the opportunity seems to be there but we can invest in branches for some time.

Management:

Sure. See, the last two years we have had all these changes, the process changes, the controls and implement, all those things that we have done. And now the IP transformation. So simultaneously two additional things which are going to drive the growth in the coming quarters and years is one that we have already, our branch expansion from the COVID period around 2020 onwards had come to a standstill.

We had not done any branch expansion for three to five years. That we kick-started again in '23 onwards. So, what has happened is those branches are now getting functional. We opened 25 branches last year, net 15, but we opened 25 branches last year and the year before that we opened 14 branches. So basically, these 39 branches that have opened will entirely give the business this year.

In fact, last two years when the branches opening were happening this 14 and 25, most of them were, back-ended in the sense that most of them happened in the Q4. So, what we opened in FY24, those new branches, 15, 14 branches could not give us much business in FY24 because they were opened in the year. But in the next year, that is in FY25, those 14 branches could give us about an additional INR100 crores of business.

And all of them are still not in the, break-even period because it takes about 18 months for the branches to break-even and to reach that INR2 crores, INR2.5 crores kind of a monthly

disbursement run rate. The second thing is the branches which were opened in FY25 again were back-ended.

So there also we only got about, INR11 crores or something business from those additional branches in the last year. But all those branches will be functional this year. So, we expect another INR100 crores, INR200 crores, INR150 crores coming from those branches in this financial year. And again, next year they will be doing.

This year additionally we are opening 15 branches which we have now brought it up front. So, by 30th September, all these 15 branches will be operational. So there also we will get some incremental business maybe not for the full year but at least for three to four months we will get some business. So that is one aspect which is going to help us get some growth.

The second thing that is getting us, will get us the growth is that we have last year tried a sales team, separate sales team because we were completely reliant on the DSC channel. So last year we have started this sales team. We had a small team as a pilot and as a trial basis and on two zones mainly we were operational. One is North and one is Tamil Nadu.

There in fact we got a good response. Last year that team could contribute about INR170 crores plus of business through direct sourcing. We also could, the same team could also help in, getting some 80 APF projects approved. Now these projects are also, we are starting to get some business from these projects. Almost more than 50% of these projects we have started getting one or two files also.

Plus, this marketing team, this year we have from July increased it was the strength from 37 team to 100. So, we have added at least 63 people. So, this year we are looking at the team which did about INR100 crores, INR170 crores last year to bring anywhere between INR750 crores to INR1000 crores of disbursement.

In Q1 the same 37 people alone have brought about an additional INR101 crores of, additional business, this 37 people have brought in. So going forward the size is also increasing. We are targeting something like INR750 crore plus coming from this particular channel. So, these are the two major things which will drive or help us in getting us the growth.

Plus, the fact that, Karnataka is an issue which has been pulling us down. With e-Khata issues also slowly getting easing out and hopefully this quarter should ease out. That also should add to another INR75 crores to INR100 crores of additional business per month. Because we last year itself had demonstrated that Karnataka was doing INR275 crores of monthly run rate which came down to around INR150 crores and now has stabilized around INR200 crores.

So even if, e-Khata comes back, at least INR275 crores to INR300 crores is easily possible because the capacity is there, we have already demonstrated it also in H1 of last year before this e-Khata issue hit us. So that again another INR75 crores to INR100 crores from Karnataka also will start coming in terms of growth. So, these are the main three major areas which are there.

Questioner: And sir, just a follow up. When do you expect this e-Khata issue to get resolved? Like what are the current on-grounds things that you are observing? And then on secondary on Telangana if you can share your thoughts.

Management: See, in case of Karnataka we, as I said, now the run rate is around INR200 crores per month we are doing. In fact, on 20th of this month the State Government had already said that in July we will do something to get the e-Khata thing happening. But on 20th of June, the day after our results, that Sunday, there was a full-page ad.

The government has come out with a full-page ad saying that, the Seva Kendras which are there, customers can go to the Seva Kendra and submit the documents there and from there they can start getting their e-Khatas done. So, in fact, I myself visited the Seva Kendra to be very frank. But not much of a flow has started in that from the customer side.

Most of them, the Seva Kendras are all for Aadhaar and for that only, address change and all. But I didn't find any customer in the nearby Seva Kendra. But at least that full-page ad was there. Once the things pick up, I am sure the customers will come. Second thing, they have also come up with an app wherein they have said that, using this app you can do this e-Khata document submission and all those things and you can initiate your e-Khata.

So, I think these kind of steps that the government is taking should further ease out of our e-Khata process. But the main thing is that for the panchayat and for the development authority, they still have to get that thing moving. For that also, in fact, there was an article or an announcement by the state government where the Chief Minister said that for the b-Khata properties also, they are looking at conversion into a-Khata by some regularization and fee or impact fee.

So, once that also process is put in place, then a lot of business which is mainly the panchayat and these areas outskirts, those can also get converted and can happen. So, I think this quarter we are hopeful some improvements should start coming in. Although I don't expect that it will come back to INR275 in this quarter itself. Even July almost is over and just two days left. But we should be around again 225 or thereabouts in Karnataka this month also. But these steps I am sure will start giving results in the coming months, I am sure.

Questioner: I just want to confirm that you don't do any lending if you don't have e-Khata. That is what I understand.

Management: That is correct. We ask for the e-Khata. In fact, even some of our sarfaesi properties which we have sold in Karnataka, we have got the money, full proceeds, because as per the auction, they are supposed to pay within 25 days. Customers have also paid, but we are showing it as an advance. And the account continues to show in our NPA today.

Although we have received the full amounts, there is an advance here and there is a NPA here because the e-Khata has not been done. So, even on a sale of property, we have not booked that case. So, either side, even on the business as well as on the sarfaesi we have not done it because till the e-Khata is not received, the execution of the registration will not be possible and therefore, we are not considering that case.

Questioner: Got it. And one follow-up question, sir. You mentioned that you have got some sales people. Have you designed any kind of parameters or scorecard? How do you want to evaluate these sales teams on an ongoing basis? What kind of targets they have? How do you evaluate them? Just curious.

Management: Sure. See, one difference I would like to first highlight here that unlike the BSEs or BMEs that other companies are having where they have a token INR15,000, INR18,000 fixed salary and then everything is based on incentive. In our case, we decided to go for a different option where we have taken all of them on a full roll. It is not like they are on this thing.

So, obviously, at the entry level, they are not there. Most of them are at the entry level whom we have taken in sales. They are getting a fixed salary of around INR40,000 or INR45,000 depending on where we have taken them. So, that is the kind of thing. So, obviously, it is unlike the other companies where the cut-off for incentive is INR25 lakhs or INR30 lakhs.

In our case, obviously, they will have to deliver much more because there is a fixed cost which is much higher than the other companies. So, we have set targets and the targets do start from INR60 lakhs to INR70 lakhs and then it is going up and depending on the grade, we have also given targets. And as I said, these 37 people who are there have brought in INR101 crores.

So, approximately, they are currently as a team. Some are doing less, some are doing more but they are doing somewhere in the range of about INR80 lakhs per month per staff. INR101 crores done by 37 people in three months. So, that is almost like INR80 lakhs plus.

Questioner: So, essentially, your priority is done how you want to get extra productivity in terms of the sales people. You have got comfortable. Now, you want to scale it up in other regions and then work on it.

Management: Exactly. And then, obviously, if this succeeds in this year further, they are able to do INR750 crores plus. Then, obviously, next year we will further add and add more people to it because, basically, feet on street will definitely help.

Questioner: And you have found any kind of early warning signals in terms of behavior of the credit quality sources by different channels and everything. Are you comfortable at this point of time, sir?

Management: See, credit norms we have not diluted at all. So, credit norms will remain the same. And the credit team or the team which is in the branch which is doing the evaluation, which is doing the sanctioning will obviously have a target of quality, have a target of NPA, delinquency, QMA, quick mortality.

All those things are already there. So, the compromise is not there on the quality. In fact, what has happened, what we have seen is that this particular team, the kind of business they are doing, in fact, the average ticket size is higher than our normal average ticket size. So, which means that the quality is a little better.

Obviously, time will tell. It is just about a year's time. But, I mean, the fact that the ticket size is higher and we have not diluted or relaxed any norms or changed any of our credit and lending

criteria. Therefore, with the higher ticket size and today about 84% of our customers are having a CIBIL score of more than 700.

Questioner: I am just trying to wonder because a lot of times we heard as you rightly said the asset quality challenges come at a later date. I am just trying to understand with the new channel which is like [Inaudible 0:27:28], are you comfortable with the quality of the associates these days?

Management: I think we are comfortable. As I said, the ticket sizes are higher. We have approved this RERA projects and we are getting cases from those projects as well. So, that clearly is the thing. Plus, what we are doing is even in the lead buying that we are doing from, these aggregators, there also the criteria that we are specifying is that we are saying that income has to be 50,000 plus or above only. So, obviously, we are not, getting the leads also from those channels which we are passing on to our sales team.

Questioner: One last question. So, when you said that projects are getting approved, are you by any chance started doing some project financing as well that is helping you to get into the project approvals or you did change anything there?

Management: No, we are not doing the developer financing and these are basically, just getting an entry so that, some customers they can also avail of our loans from us because not all customers will fit into the norms of a PSU bank or maybe Axis or HDFC Bank or something. So, we just get an entry into those kind of customers and builders and all, that's it.

Questioner: If that is the case, from the builder standpoint, what is the incentive for them to acknowledge CanFin as an additional lender?

Management: See, it's just that, for them, for the builder what matters is how soon or how quickly, or how, they are able to, their conversion rate is higher. That is when their projects will sell and their money will come faster. So, for them the only interest is that, even if, 10 customers are coming and seven are already getting approved, if the other three can also, get converted by maybe two other additional lenders without any additional cost, then why not? Then they will have to spend less on marketing and they can still get it. The churn will be quicker, no?

Questioner: I mean, the projects which are getting approved, so who are the core interests in this case? Typically, it is the banks or NBFC?

Management: It is all, at least all the projects that we have done, I think, at least an SBI, HDFC or ICICI or at least two of the four would be there. SBI, HDFC, ICICI, Axis, at least two of them would be there. Of course, there are other players like, there could be a Bajaj also, there could be a PNB also, there could be an LIC also, there could be some other smaller lender also, but at least out of these four, two of them would be there.

Those are the kind of projects that we are doing. We are not going for Cat D builders or things, we are still targeting basically category B builders only.

Questioner: Cat D and Cat C is typically your target segment?

Management: Yes, yes, yes.

Questioner: And with this technological application, do you think you are now able to have substantial tangible benefit of turnaround times or maybe something more on that variety? What are those tangible benefits for you as an organization and maybe for the customer as well if you can elaborate?

Management: See, from the internal process point of view, in fact, quite a few things which earlier were being done manually are now getting automated. Like for example, earlier when Aadhaar card used to come, PAN card used to be collected, when the ITRs used to be there, everything used to be collected from the customer and in case of Aadhaar and PAN and bank statement, we used to directly verify from the portal, UIDAI or from PAN or from the bank and get the bank statement verified.

Now, with a tie-up with our Karza tie-up which is perfused now, we are directly it is hitting the UIDAI and getting the verification from there, from the PAN and getting it there. CIBIL which was manually getting pulled is now automated, it is coming directly and it is getting fetched and it is getting fed into the system. The ITR also through OTP, we are directly getting it from the IT portal.

So basically, we don't have to, not only does it reduce the workload of the staff, but secondly, the comfort also that it is an official, what has been uploaded on the portal is what has been downloaded. So, authenticity of the ITRs and today we don't have to depend on the CA certified ITRs also. So, both things, it is benefiting.

Plus, as I said, we are tying up with the aggregator. So, bank statement will also directly come from the bank. So, the bank verification process is reduced. We have provided certain mobile applications to our staff. Of course, these are all not things which, which already are there in the industry. It is not that we have created anything new. It is just that we are late entrants or late joiners to this party.

So, we are now having this mobile app where our staff can go to the field, there itself, take a photograph with a geotagging and everything and it gets fed into the system. So, those kind of, things where, duplication of work was there. Some areas, considerable reduction is there. Now, even in terms of our, audit, we used to have frequent audit. Now, the audit team can look at all the documents in the sitting here. the visit to the branches is also, it can be reduced.

They are able to do much better work without having to go to the branches. So, the time of the branches in attending to audit is also reduced that way. So, I mean, there are many such areas where, these kind of small, small benefits are there. If you add up all those things, I think, maybe 10% to 20% productivity improvement is definitely there in the, in the way we work now.

Questioner: Yes, Telangana, how do things stand there, sorry?

Management: See, Telangana is, there were, one of course was the sentiment issue because of this Hydra and that was to some extent in fact impacting our delinquency also. In the past, we have indicated

that, with some of the cases, the Hydra issue resulted in property prices also coming down in some of the areas. So, that was affecting our delinquency, customer, stake and all.

Now, what has happened, it is impacting, helping us at least on the recovery side. Now, that stability has come, there have been no demolitions for the last six plus months. So, the sentiment is improving, the property prices are also stabilizing. So, now, in fact, we are definitely seeing an improvement in the delinquency also in the sense that if you see our June month, we had no flow into NPA from in Telangana, okay?

This month also, we have started, in fact, there was a reduction. Now, our NPAs in Telangana has also started coming down. For the second month in a row, we are seeing that our NPAs and numbers are coming down in Telangana. Delinquency also, if you see our SMS 012 numbers are also coming down, have started coming down in Telangana. So, that is definitely one positive.

That, plus the fact that, now, projects are also slowly picking up and our staff also is now moving in the market. we, by end of the year, in fact, Telangana will also be positive. We are very confident. In fact, in this quarter also, you will see that probably Telangana will be positive, could be positive in this quarter itself. Understood.

Questioner:

Understood. So, that is also kind of getting behind us. So, most of the inputs for there are kind of getting behind us and the new sales team, new branches, new geographies, all will keep kind of climbing. And you are pouring into Maharashtra, Madhya Pradesh as you are expanding geographically. What is the experience because the core has been Karnataka, Telangana and obviously, Tamil Nadu is also new but how the geographic expansion experiences?

Management:

See, actually, it is not that, we are very new in these geographies. Frankly speaking, our Delhi branches, some of the branches in Delhi are more than 20 years old. Same with Jaipur. In Bombay, we have had Panvel, Vashi. In fact, our book size there itself is more than INR500 crores in, INR350, INR500 crores in Panvel and in Vashi also, INR350 plus.

So, basically, these are geographies where we have been present for a long time. We have had some issues with the staff stability in some of the locations, which now, slowly, we are, sorting out. Earlier, we also had a lot of people going from Karnataka and establishing those branches and teams generally getting room.

Now, in fact, we have seen quite a few staff who are, in-house groomed and been with us for some time and they are now reached quite fairly senior positions where they are able to manage themselves. But, yes, some of the geographies, yes, we are expanding in these places. But it is not that entirely these geographies or this documentation or this, segments are new to us.

We have been there, in fact, we have 14 branches in Maharashtra. Now, we have more than, I think, entire West Zone which comprises Rajasthan, Gujarat, MP, and Maharashtra has about 47 or 48 branches. Now, 51, for this time we have current. So, 51 branches. We have north zone which is Punjab, Haryana, Himachal, Uttaranchal, Uttarakhand, Delhi, UP. There also, we have almost 40 plus branches. So, it is all there. We have been there and it is not that we have added only that, it is that, this 51 which is in west.

In fact, we have opened 13 branches in the last two years. So, earlier also, we had 37 odd branches there in the west actually. So, it is not a complete new geography. So, documentation, our legal panel, our valuer panel, all those things have already been there, established and they have been working with us for a while.

Of course, we have been now adding some new geographies like, we were there in Indore. Now, we have started Ujjain, we have started Ratlam, we will be looking at [Inaudible 0:37:30]. Same way, we are in Bhopal and Mandadi, we will be looking at nearby locations. We were in entirely Delhi. So, we are, we were in Jhansi, we have now started Agra and Mathura. We were in Delhi, we have now started, Hapur, we have started Saharanpur.

So, these are, nearby geographies only where we have started. Absolutely new geography, we probably only would say, probably East UP was an area where we didn't have anything. We were only up to Allahabad and this thing. So, East UP, that place maybe could be one or two branches we have added which are new geographies entirely.

Questioner:

Understood, understood. So, it's an expansion now rather than a pause which was there and it's about staffing and just getting things moving. Just moving to NIMS, you mentioned that a large part of the bank loan has yet to be repriced last quarter, but you have not also repriced the loans which 10 bps and 15 bps was happening. So, how should we be thinking about NIMS going forward?

Management:

NIMS will hold, I mean, I don't see any problem because as I have been saying, we are not mandated to pass on our listing because we don't come under the EVLR regime, like banks. So, we experience it first on our liability side and then pass it on, on our asset side to our customers. So, the February rate cut we experienced by end of March because, the term loans and all get repriced at the end of the month or at the end of the quarter.

So, in by March when we got the benefit in April ALCO we decided to change it from first from April onwards, sorry, from May onwards we decided to pass on our 10 basis points benefit. Thereafter, now the April rate cut happened which we experienced by end of June. So, we have passed on another 15 basis points effective July.

Now, we are still to get some benefit from that 50 basis points. Some of the banks have passed on, some are yet to pass on. About 3,000 crore of term loans are yet to experience that 50 basis points or whatever benefit. So, once that comes probably in August or September, we may again look at passing on something, but all that is first experienced on the liability side, then we pass on our asset side.

And on the asset side also there is a, lag effect because the reset happens either on a quarterly basis or on an annual basis. In fact, today as of 30th of June, still 67% of our loans are on annual recent basis. So, that will take some time for the 10 and 15 basis points also to get actually passed on to our customers. So, NIM and spread I do not think will be a problem. 2.5 and 3.5 is what we have been guiding, but we have always had a little higher than that and I think that will probably be maintained at least at the June level should be maintained.

Questioner: In this medium to long term, we spoke about getting trying to improve our NAP mix more and trying to do more self-employed versus where we are now.

Management: Correct.

Questioner: So, how do you see the margins trajectory over medium or long term or maybe this is yeah.

Management: No, actually if you see we had said that we want to look at this it was also with the objective that one is of course broad basing and tapping the opportunity in the lab segment or in the self-employed segment, but at the same time it was also that they know slightly when we are moving the ticket size up there will be a little more competitive pricing required in that segment.

So, this will get offset by what we are doing. So, that's why we had said that our spread and NIM targets we will retain at two and a half and three and a half. Of course, the trajectory has happened. We have moved from, 89% was housing including CRE. It has come down to 84% now. Our self-employed was actually 27% that's increased to 30%. So, on both fronts, that benefit is slightly coming and that has helped us, our ticket size was around INR20 lakhs-INR22 lakhs. Today it is 24 lakhs.

So, if you see that slight increase and the rate that we have slightly offered for this 800 plus customer, 775 plus civil customer, that slight benefit that we are offering, that is getting compensated by the extra earning from these segments. So, I think that was the objective. We will always keep a very nice calibrated way in which we will keep on monitoring so that we don't compromise. We don't want to go below 2.5 and 3.5.

Questioner: Understood. And any thoughts on getting to deposit taking from a long term perspective because we are deposit taking PSU.

Management: No, I agree. We are deposit taking. We have a AAA rating also and but the thing is, today the kind of rush that is there today even at 8% when we are offering, of course, we have reduced to 7 and a half from our first of this month. From tomorrow, it will be reducing to 7.5% for our three-year deposit. But having said that today, the rates have not yet come down. There are other players, small finance banks and a couple of NBFCs who are offering much more attractive rates.

So, even at these rates, we are not able to get and whereas as compared to that when you are looking at the NCD, we are getting at below 7.25%. When you are talking about bank term loans, all of them are at 7.25% or below. If you look at our NHB borrowing, it is at 6.75 blended cost and the rate cut has not yet been impacted by NHB. So, if you look at all the other avenues, we are getting at a rate lower than what our bank, our deposit rates are.

So, basically, it does not make sense today to increase the rate and garner deposits and have a higher cost of borrowing. So, that is one thing today that is a very, very challenging situation today. There are SFBs who are offering much higher rate.

Questioner: Understood. And lastly, I know we discussed this last time also when we met, but the previous talks of Canara Bank looking to sell CanFin, the AAA rating, the cost of funding advantage, is

still parentish. If that were to change, a big vote goes away. Why should the buyer really look at it? You know, that's the biggest vote for a financial institution in a way.

Management:

No, I agree. But then you look at it that, know, Canara Bank and our Chairman, Mr. Raju who is the MDC of Canara Bank. He has been repeatedly saying that they see a still quite a bit of an upside in the company and they don't intend to sell. So, I think the message from their side is that they are not very keen to sell the company in their stake.

So, I mean this question is more a hypothetical question than anything else as to what if . Obviously if they do decide to take that call, then there will be a 25 basis points increase in our cost of borrowing and we'll have to then look at diversifying more into self-employed or things like that, taking all those calls to offset that cost increase.

Obviously, that is there but then the question again remains is that why would Canara Bank want to do it today you know in terms of our profitability in terms of this thing, it's among all the subsidiaries that Canara Bank is having I think this is a jewel in the crown why would they want to do it also.

Questioner:

Absolutely, there is no compulsion from a regulatory perspective or financial perspective. From a capital standpoint we are very comfortable now?

Management:

Yes.

Questioner:

So given the growth aspirations we have we really don't need to dilute going forward if our credit costs remain which have been the historically remains in check, we really don't need to dilute to get to our growth aspirations over the medium term?

Management:

That's correct sir, today if you this year if you're looking at about 20% disbursement growth INR10,000 crores-INR10,500 crores we would still be about 13% AUM growth. Our ROE is around 17% close to 17%. Today in fact our gearing has come down to below 7 whereas you know I think up to a 7 and a half and 8 even up to 8 the rating agencies would not have a problem with the rating because that is what we had a discussion.

So, we still have a scope to in fact to some extent in a year or two even if the growth picks up we have an opportunity to increase our gearing also and be able to sustain the growth and as long as our ROEs are at 17 or thereabouts then up to 15% growth that we are targeting in the mid medium term also AUM consistent 15% AUM growth also that we are targeting I think we'll still be comfortable.

Questioner:

Absolutely sir, absolutely and last question from my side again going back a bit macro somehow there seems to be something missing in the economy the demand at the lower end or the bottom end or mid end is really missing therefore the results are also telling us any thoughts given you're dealing with a segment INR50,000 sort of salary segment more what's going on what's your sense, what's your feel and what can change?

Management:

Frankly you know in the last 20, 25 years more than 25 years that I have been here in the industry, there have been the phases where the growth has really picked up where it has been more than

20% kind of growth are those years where the government incentives have been really really very good.

And particularly if you can see there was a period when you know the growth industry was going at almost 20% you know for a couple of two three years that was the time when the CLSS was at its peak. In fact, prior previously if you look at it the government had on a regular period from 100% risk weightage had come down to 35% risk weightage, so that was one benefit.

Second thing this 80 IP benefit was also there which now is not as much. CLSS was one benefit which was given, then the benefit in terms of the tax benefit from their for principle and interest was also increased in the period. So those are the times when actually the growths were very very much there. So, of late you know you know those kind of things have all been factored in on and for the last few years there will be no further incentives or growth focus areas which are coming. So that is one area which can really really give a push.

Second thing I would believe is, in terms of course it is good for the industry in the long term but there have been certain incidents and certain regulatory things which have happened in the last few years or whatever which actually are good for the industry but I think this phase is also required where this will help once the once the improvement happens when all the controls and regulations are strictly implemented, once everything falls in place I think again the thing will pick up.

Right now, and for there is some impact because of that like the PPC criteria with the government, the regulator implemented. I think these are all necessary changes and somewhere was getting missed out but once those things get stabilised, I think the growth will further pick up. I believe that is the major two things.

Questioner: Understood sir understood. No no this is very useful. Sai any further questions? I think he is stuck there. Thank you so much for your time. Thank you so much. And I look forward to meeting you.

Management: Pleasure. Thank you so much.