

Transcript of Recording (46)

Questioner: So sir, I have an interaction with Parag sir. So he wanted to know the future outlook in the declining rate interest. One thing is that. Other thing is that the rate cuts which we are seeing, so it will benefit the Housing Finance Company across the segments or is there any scope for further NIM compression or improvement? Two things that you are saying. And how the company is looking forward to improve their ROI? Three was the main point of thing which he wanted to know?

Management: Okay, the first about the interest rates, I think we -- see we, overall it will obviously benefit the industry. One, because lower interest rates means, if everybody passes on the lower interest rate, then in that case the EMIs will come down or the tenure can be increased and therefore this will mean that, eligibility will increase. So basically it should generally benefit everybody, the public at large. So demand normally has always gone up whenever the interest rates have come down.

Two, traditionally Housing Finance Companies, because they don't pass on the equivalent rate benefit to the customers or because they don't, they do it with a lag, therefore they are normally, whenever the rates have been coming down, the spreads and NIMs of Housing Finance Companies have traditionally gone up. That is the historical data also shows.

So in both fronts it is going to be better. In case of Can Fin, since we are also like a PSU and we have also, so we are a little more, transparent and more listening to the customers. So we have, we are just one of the two, that is LIC and us, we have actually passed on the rate benefit to our customers, existing as well as new.

However, it will not impact our NIM and spread because, what we have experienced on the liability side, only that we have passed on. So today, in March, our cost of borrowing was 7.55% on the entire book. For the full year, by June, it has come down to around a little below 7.3%. Therefore, the 25 basis points is what we have passed to our customers.

So the only benefit that we will enjoy is that, while we have already experienced the rate benefit in our liability side, now that we announced it for our customers, it will have a little bit of a lag effect because it is a quarterly reset or in some cases annual reset. So only that benefit is something we will have.

So by and large, in terms of a spread or rate, it is not going to affect us adversely at least. It will only improve because our spread was 2.55% as of March, which has improved to 2.62% as of 30th of June. And probably because of this lag effect of passing on, probably it may go up a little few basis points further as of 30th of September. That being the case, if our rates come down further, we will take a call again in September because it is August, we have not seen much of an impact.

But because we got it almost at the end of August, that one major bank where we had to get about 2,500 for rate benefit, that we will probably see in September. So maybe we will see from October we want to further reduce and pass on whatever we have benefited, or we have got the benefit on the liability side. So at least it is not going to be negative for us in terms of the spread

and NIM. We are very confident that maintaining a 2.5% and 3.5% spread and NIM that we have been talking about.

The second point or the third question of yours was about the ROA. I think we are almost at a very healthy ROA of 2.2%. And considering that we are in the particular segment where 70% is salaried and we are talking about a 25 lakh kind of average ticket size, therefore it is almost a very strong segment where we could very much be in competition with the big banks also.

So there we have to be very price sensitive, unlike a real affordable below 10 lakh, below 12, 15 lakh segment where you can charge higher rate of interest. In this segment you cannot actually charge, you have to be very competitive. They are price sensitive, exactly. So we have to be a little competitive. So we cannot actually work at a very high spread.

Today what we are operating at a 3.6%, 3.5% plus kind of a NIM. Maybe today it is around 3.64% or something. Maybe around 3.6% also if you work out it. We have to manage our costs, keep our costs low. We have to keep our credit costs low, our opex low. And we have to see that we are able to maintain this.

So not much of a scope unless we expand into affordable housing or developer segment or LAB or something where we can actually improve our NIMs and thereby improve on our spread. But even with the 3.5% NIM, we are still able to give a, I believe we are able to have a 2.2% ROA, which I think is...

Questioner: Decent enough interest rate.

Management: Absolutely. And that has been very consistent also.

Questioner: Sir, one question was that are we seeing business transfer because the private players are being very aggressive, let's say Aptus, Aavas Financiers and all. So are we seeing any customers transferring their loan?

Management: I don't think they will go to Aptus or anybody because the rate of interest is very, very high. Today our highest rate of that we are offering for a maybe non-salary, non-housing customer with a slightly lower civil score also would be around 12.75% or 12.5%. It is still, I would say probably 1% lower than where they begin. Yes, they are starting from.

Questioner: And sir, one thing was that how are you seeing the demand because the targeted segments which we cater to are price sensitive, they are into the affordable housing. So after this rate cut, do you see that the business would be growing at a faster pace?

Management: As I said, whenever the rates go down, there is an increase in demand because it actually improves the affordability or the eligibility basically. Therefore, people can, somebody who is looking for say a 40 lakh property can now start probably targeting a 43, 45 lakh property also. So basically that's how it happens because the rate of interest goes down, so the EMI comes down, therefore your eligibility goes up. So in this particular segment, that is the 15 lakh to 75 lakh segment.

Questioner: Sorry. I thought that somebody is already there. Hi, how are you?

Management: Bus is fine.

Questioner: Yes, thanks. So my mobile number, he will message you.

Management: So, yes, so basically, the demand at least in our segment is not a problem at all.

Questioner: So, I have discussed about the higher order part and how the demand...

Questioner: So right now, what is your hourly, 1.2%?

Management: 2.2%.

Questioner: 2.2%?

Management: That's our number.

Questioner: That's good.

Management: HDFC saves.

Questioner: Correct, correct. So, basically, you see, the concern of our stock right now, and I talk to Prashant sir very often. So, at the end of the meeting, I will tell you what he told me about your stock. He is so much in love with your stock. But, so just wanted to see, what percentage of book is in Karnataka and Bangalore and so that segment?

Management: See, today, out of the about INR39,000 crores book that we have, about a little less than INR11,000 crores is in Karnataka. And out of that also, 90% of that would be in Bangalore. Bangalore means, including the outskirts of Bangalore, like the Hoskote or the Devanahalli or the, the Devalapura or the Kengeri or those areas.

All those outskirts areas put together, it would be around 90% of that. So, I would say about INR9,000 crores to INR9,500 crores would be these, in Bangalore city only. So, this percentage would probably have been, is today about, out of INR40,000 crores, you can say, this thing is almost about around 32%. So, earlier it was more than one-third. So, it's slightly come up by about 1% to 2% in the last 2 years.

Questioner: So, yesterday, if you have noticed, yesterday, Sourav Mukherjee has written this thing, that one out of ten borrowers are defaulting even on their housing loan EMIs, especially in Bangalore, because of the IT thing which is going on. I think that he has referred to IT, but he has said this. I will message you that...

Management: I know, I have seen that. I have seen that.

Questioner: So, we are not facing that kind of challenge in our...

Management: No, in fact, I will tell you, I, what we have seen is, our, our, NACH Bonds rates, about 90% of our loans today are on NACH, and our NACH Bonds rates are a little below 10%. That also, in

fact, it is more because we have all, we find that it is a little higher when it comes to the 15th cycle.

That's because, by the 15th cycle, people normally, 5, 10 and 15, 15th cycle, people have normally used to spend the money or the balance is a little less. They have already other things. Otherwise, including that, our NACH Bonds rates are hovering around between 9%, around 9% only.

Questioner: 9% is what, you are saying?

Management: About, totally about 2.10 lakh customers are currently having NACH, repayment from NACH. So, out of 2.10 lakh customers who are paying NACH, roughly about 20,000, 22,000 is where normally ranges is the bonds ratio. So, around almost 1.9 lakh customers or 1.88 lakh customers, generally, NACH gets paid.

Questioner: That auto, auto EMI gets paid, you are saying?

Management: Yes, and this is Pan-India, and even Karnataka, it is the same ratio. We have not seen any. In fact, our Karnataka delinquency is across all the things, is the lowest among all the 6 zones.

Questioner: It has not deteriorated in last 3, 4 months after that auditions about collection was passed...

Management: No, no. In fact, after that also, there are couple of pockets which are there, as I said, which are like, that Bidadi, Ramanagara, Mandya and all those things. Second is the Shimoga, that belt is there. And there is one North Karnataka, which is in Kalaburagi, those areas where we have heard some stories. But again, our exposure in those is not much in those places. As I said, ours is mainly in Bangalore city.

Questioner: And most of our loans will be to, out of INR39,000 crores, it will be to salaried people?

Management: 70% today of our book is salaried segment.

Questioner: And remaining is self-employed.

Management: Self-employed, yes.

Questioner: Okay. And you are seeing any stress in the self-employed book?

Management: As I said, the last, if I look at the last 24 months data, I don't think there is much of a difference in the NACH Bonds kind of ratio. Obviously, the self-employed, it is a little higher. If I have to break up between salaried and self-employed, it is higher. But the trend has by and large been the same.

Questioner: Okay. We don't see any.

Management: Not much of an issue.

Questioner: Okay. And what is your average yield on advanced SSOP now?

Management: It is a little below 10% on the entire book. It is a little below 10. It would be around 9.95%.

Questioner: Ticket size is 25x?

Management: Yes.

Questioner: So, just one question. That is why I have actually not bought Can Fin Home up till now. Otherwise, these valuations are so compelling that one should have bought only 11b on a trading basis. And I think it will comfortably grow at about 15%. Even if you don't do anything.

Management: So, we are targeting about a 15% kind of a growth only. This year, it will be about 12%, 13% because it is still the lag impact of the last 2 years where we had other issues. But next year, I think we should be back to 15% and we should be able to maintain that. Because that is the only. Otherwise, in terms of our liability side, in terms of our spread, in terms of our GNPA, we have not had any. It has been quite consistent.

Questioner: So, basically when ICICI Bank and Axis Bank are telling me that because PSU Banks are giving mortgage loans at very low rates. In fact, wherever they have a 360 degree, as ICICI Bank keeps calling it, relationship, there only they are giving mortgage loans. Because otherwise the rates are too low.

Of course, little bit respite came when SBI increased their housing loan rates by 25%. It is very recently. It is above 800. But that was a little bit of relief. So, why would a self-employed, I can understand, can borrow at 10% for his house? But why would a salaried person borrow at 10%? It is, what kind of a salaried person? He is doing what?

Management: See, 10% is on the entire book. That is the year 9.95%, 9.8% or something. But if you look at the total, our salaried customer with a good civil score who is coming for a new purchase construction, could get somewhere around 8.7% today.

Questioner: 8.7%. While PSU Banks are at?

Management: Today, they are at around 7.4% to 7.5%.

Questioner: See, 7.4% and 8.7% for a, I would say, biggest investment of his life. And biggest borrowing of his life. 1.3%, it should matter a lot?

Management: It should matter, I agree. But again, the thing is today, our main business is in the outskirts. Like as I mentioned, the branches like Hoskote or Devanahalli or Dasanapura or this thing. Or in the Tier 1 towns where we are there, like Indore or Bhopal or Ratlam or whatever. So basically, these are the places where the banks are. First of all, the banks have a ticket size of about 35 to 40 lakhs.

Even Canara Bank, if I have to say, has a little about 35 lakhs as the average ticket size. So mostly, we come a little below the radar of those kind of bigger banks. Second thing is, we are on the outskirts where the new developments are happening.

So when the new developments are happening, slightly the panchayat areas or the development authority areas. So there, we are the first ones to move in, give the loans, take the risk on this thing and at a price. And then therefore, that is where the affordability is also there.

Today also in Bangalore, you will not get anything below INR1 crores if you have to go on a property. But if you have to go only in the Hoskote or a little beyond that, is where you will get actually properties which are in the 30, 40, 50 lakh segment.

Questioner: Sir, one thing was that you mentioned that around 8.7% is added towards salaried employees. But sir, match doesn't work because 70% is in terms of the number of customers or the value wise?

Management: Yes, I am talking about value wise only. But these are not the customers who are all of them in that immediate thing. There would be some who would be little on the panchayat. There would be some with a possible score of below 750. So then the rate would go up. If there is a self-employed, obviously the rate will be higher.

But even within the salaried, that would be higher. Then there would be, some customers, some check bonds. So our internal scoring methodology is also there. So there is S1, S2 plus S2 and S3. So based on that, we can add a little bit here and there where they would be pushed further. For 15 bases point.

Questioner: Because overall you mentioned that it is slightly below 10%.

Management: Below 10%.

Questioner: So that is why I asked you. And other thing is that around Bangalore city which is targeted and outskirts, the property prices have increased around 53% to 54% which I have seen from NHA 23% and 24% somewhat and 25% as well. So are there slightly postponement amongst the loan stocks which are already going with the potential customers?

Management: Not that way. But as I said, we will have to, people are moving a little more further away from the city. Like today, our branches, core branches in Koramangala or in Jayanagar, they also have to do business. They have to go to Hoskote, to KR Puram and little beyond on this side on the, Sarjapura side and all to source business or electronic city side and all to source the business. Because that is where the affordability is. So people are actually having to move a little further away.

Questioner: And sir, most of our business is through DSS or DCS?

Management: It is through DSS. But basically when you say DSS, you don't have corporate DSS. These are individuals. And we pay them effectively like water connectors get paid in the market. So it is 0.35%, 0.4% rate are going up to 0.75% and the blended payout would come to around 0.45% to 0.5%.

Questioner: Are we trying to attend to new geographies?

Management: We have actually opened 39 branches in the last 2 years. This year also we are targeting 15 branches. Predominantly, west and north. And now in fact, 4-5 branches we are also looking at in Andhra Pradesh because that is also a state which is looking very positive.

Questioner: But sir, there don't you think there will be intense competition? Because existing NBFC players who were not previously into the housing loan segment, now they are also launching their products in the housing finance.

Management: Where in Andhra Pradesh?

Questioner: No, in the western and the north...

Management: No, sir. See, that is always there. But if you are looking at, the smaller players or affordable players or the NBFCs who are doing it, I don't think that even if they are in the same ticket size bracket, their rate of interest is much higher.

So, in that segment today at 8.7, I guess other than the bigger banks and PSU Banks and all, today if you eliminate those or exclude those bigger players, then I think our rate would be the most competitive. Only LIC probably is matching.

Questioner: But last credit underwriting is more stringent than that, what I assume. Sir, so there we would be having strategy to gain the customer based on the pricing, right?

Management: Sir, pricing is an advantage, yes. So, we will be the ones who will be picking and choosing the customers. What is left out, then they will be taking at a much higher rate of 13%, 14% from the other players.

Questioner: So, sir, focus would be on maintaining the spreads or increasing the volume in these new geographies?

Management: See, spread, we are very clear, we have everything of 2.5%, we will not go below 2.5%. Margins, therefore, 3.5% is what we are guiding. And we have consistently maintained that kind of a spread and NIM. What we will obviously today require is the growth. So, we are pushing for growth. We have set up, one is additional branches. We have expanded in the last 2 to 3 years.

We are growing. Second thing we have done is, we have set up earlier, we did not have any sales channel. We have set up our own sales channel from last year. We started small, but it is consistently we are adding the team size. We started off with just about 8 people in June '24.

Now, by March '25, we picked it up to around 39 people. And about 4% of the incremental business was coming through this channel. Now, we have increased the size from 1st July to 100. We have increased it to 100. And today, in this month of August, if I have to look at it, about a little more, in fact, more than 6%, 6.5% has come through this channel.

So, slowly we are trying to build our own sales team. And that is where we will, one, it will bring more sticky and a more preferred, we can pick and choose the customer we want, which will not be a DSC. So, our DSC percentage will also come down.

Questioner: Profitability will increase?

Management: Yes, if they are able to maintain. So, growth at least will come. So, basically, we are not saying we are reducing our DSC channel, but what we are doing is we are increasing or adding a new channel which will do it.

And post our, this transformation project, IT implementation that is scheduled in November, after that, in fact, we will be able to add the digital onboarding also, digital sourcing also. So, from Q1 of, sorry, Q4 of this year or Q1 of calendar year 2017, we will be able to do digital onboarding also. So, overall, we have now about a little below 80% is coming through the DSA.

We want to make it 60%, 20% through our direct sourcing channel and 10% through digital. So, once this thing is done, we will be able to, acquire leads from the market and then forward it to our teams, have digital onboarding also happening.

Questioner: So, basically, you are saying that there is not much pressure on yields right now? Not significant pressure?

Management: Not much. Today, if you have to see, most of our borrowings or all our NCDs, if we were to raise, would be at between 7%, 7.25%. All our bank borrowings are at 7.25%, below 6.85% to 7.25%. Then we have a commercial, CP of course is short term, but then that is even below 6.

Questioner: And yield on advance is around 9...

Management: Close to 10 on the book.

Questioner: So, 3.5% NIM is predicted?

Management: Yes, that is what.

Questioner: What is your Tier 1 now?

Management: Tier 1 is almost 24%.

Questioner: So, that is not a problem?

Management: Not a problem. We have a...

Questioner: And disbursement growth?

Management: Disbursement growth, this year we are targeting 10,500, which will be more than 20% disbursement growth.

Questioner: For this year?

Management: Yes.

Questioner: And AUM growth is 12%, 13%.

Management: 12%, 13%.

Questioner: And next year AUM growth can be 15%?

Management: 15%, yes.

Questioner: And right now you are not witnessing any pressure because, see, because I will tell you, the problem right now which is happening is uncertainty. There is uncertainty about everything and so uncertainty about people's jobs, people's future income and specially an item like house wine which is of such a large amount for anyone. People delay it till the environment becomes certain. Generally that is the overall, I would say, human psychology.

So, right now you are not seeing people shying away and that kind of environment you are not seeing. IT hiring, for example, IT hiring is completely frozen. I would say new hiring because of this AI and all. So, and you are significantly present in IT hubs?

Management: That is true. So, but then if you have to, the 70% separate segment that we mentioned, out of that 14% is government, state and central government.

Questioner: Okay. And that will be very important.

Management: 51% is the private sector employment and only 6% is IT.

Questioner: So, private sector means?

Management: They would be working small time jobs. They will be working in some industries like we have lot of, small time.

Questioner: So, normally what do you see? For example, the family income you see or a person in whose name the loan is taken, that you see?

Management: No, we took related to the family income.

Questioner: Family. So, family income, suppose it is say family income of INR1,25,000 a month. And so, then you will say that what kind of EMI he can pay?

Management: See, branch would be having about 40% IR kind of a limit which they can give. So, if it is 1.25 lakh, then they will be able to give somewhere around 50,000, 45,000 to 40,000 EMI they can, up to that amount.

Questioner: So, that means they can give a loan of up to 45 to 50 lakhs.

Management: 45 to 50 lakhs the branch will be able to give. But our ticket size itself is 25 lakhs. Our sweet spot actually is 60,000 to 1 lakh is the family income.

Questioner: Family income.

Management: Where we are basically looking at. So, even if say two people, husband, wife, both are earning, doing medium size jobs, 40,000, say 30,000, that kind of a jobs also, they will be able to get the kind of loan that we get.

Questioner: And generally, every tenure of the loan is what, 10 years?

Management: In the books, it is around 8 years. It will actually...

Questioner: And it is all floating?

Management: It's all floating.

Questioner: It's all floating. And right now, you are not seeing any stress?

Management: Not right now.

Questioner: Even in the self-employed?

Management: Not much. I mean, it is just whatever is the normal trend is what is continuing. Because today, if I tell you, Q4 FY '25, we had a dip in our overall delinquency, SMA0+. Obviously, that is a cyclical trend. Every year, Q4 always is better. But in our Q1 of this year, it further came down in absolute value. So, from INR4,266 crores, it came down to INR3,980 crores.

Questioner: This is SMA?

Management: 0 plus 1 plus 2 plus NPA. All four put together, it has come down.

Questioner: So, out of your INR39,000 crores book, INR4,200 crores...

Management: Was in March.

Questioner: Is all SMA0+ 1 plus 2 plus 3 plus NPA.

Management: Plus NPA. Which further has come down. As of today, as we speak, it is on 31st August, it is even below INR3,900 crores. It has further come down from our June number also.

Questioner: And these disbursements in this quarter, Y-o-Y are up by?

Management: Sorry?

Questioner: Disbursement?

Management: Disbursement. See, in both months, we have done more than INR800 crores. In July also, we crossed. We were able to do more than INR800 crores. August also, we have done. And August is slightly better than July also.

Questioner: Just a second. I have to take this call. Sorry. I will come back.

Management: These are points you have posted already, if Sir has any questions. And now I have your cards on the menu.

Management: Definitely.

Management: Because. Sir is actively looking into the housing finance space. It is off now. Because now the cream which was in the banking space is being wiped off now.

Management: So, how long you have been in the...

Management: So, basically, I was into the BP Group, the parent company of this Ford Capital. So, first I was on the sale side. Then I shifted to Parag Sir. Because in the dynamic fund which he handles, around 45%, 48% of the stocks are mostly into the banks and NBFCs. Because he is the pawn for banking space and all. So, I assisted him. And there is a value fund which we look into the micro and small market only.

Management: Okay. And what is the total AUM?

Management: So, total AUM across the three different schemes. One is the NS fund which is into the hedging thing. So, around INR400 crores, INR500 crores. INR400 crores, INR450 crores as on issue.

Management: In the morning, we were just coming in. We both got out of the lift together. So, at that time. So, that's when you came. I said, Parag has come.

Management: Initially, he was occupied with something else. Because two of the brokers are having their confidence. One is from Moti. And one is...

Management: Where is that? That's in...

Management: I think at Grand Hyatt.