

Transcript of Recording (40)

Management: The positive aspects of our Q1 was this was the first time we achieved a disbursement figure of INR2,000 crores and there was a reduction in our delinquencies and overall there was a lot of improvement in most of the sectors. So this was the most important thing was that we had crossed, we had reached that INR2,000 crores mark and July also we have done INR14,800 crores and we have a guidance of around INR10,500 crores for this financial year.

We have already done around INR2,500 crores for the first quarter, second quarter we are aiming for a figure of INR2,500 crores, in the third quarter our IT transformation will get implemented by November, so we are factoring in a figure of INR2,500 crores and in the last quarter we expect to make up to a shortfall that is our INR10,500 crores.

We expect 12% to 13% growth in our AUM and around 15% to 20% growth in our disbursement figures. We have done a figure of around 8,567 last year, so this is our guidance. And another very positive aspect is that our delinquencies are coming down month on month, in fact our July level is much lower than our March level, June level and I will just give you the figures for this.

Total delinquency for our first quarter of 2025 was around 3,600, then in quarter 2 we touched 4,200, then quarter 3 of FY25 was on the higher side, it was 4,886 and in quarter 4 we came down to 4,265 and now in quarter 1 we are at 3,980 and in fact July we have come down below that, we are around 3,900, so we are gradually our delinquency levels are also, we are seeing improvements in that and we hope to do better.

Questioner: Sir, I can see that your branches are increasing the number in North region?

Management: See, our strategies for business development is increasing our branches, that is we will be adding 15 branches this financial year and we expect to open all those branches by the second quarter, so that the contribution of the branches can be discernible. In fact we could open our branches in the last fiscal, in the last month of the quarter, that is the last month of the fourth quarter, that is in March, so their contribution is happening now, so our branches are, we will be opening in the North and West and around 3 branches in Andhra Pradesh.

Questioner: Okay, and what is the tenure or time period you would assume it would need for those new branches to mature or?

Management: To break even, it will take around 2 years. Yes, that cycle is around 2 years and if you are interested in knowing what is the contribution of our newly opened branches, I will give you a figure, just hold on. See, we have a total of around in the last 23, 22, 23, 23, 24 and 24, 25, we had opened around 46 branches and their contribution till date is, in the AUM size, it is around INR264 crores.

Questioner: This is from how many branches?

Management: 46. Opening from fiscal 23, 22, 23 to 24, 25, these 3 years.

Questioner: And if you could update on Karnataka as well as Telangana?

Management: See, our presence of branches, if you see in South India, it is around 52%, around 56% and they are contributing 72% of the business and in fact, if you see our, if you study our, if you analyze, in fact, we had, for the first half year, last fiscal, we did very well but again, after the introduction of the e-khata, our business took a hit primarily because our contribution is coming 30, around 34% to 35% is coming from our Karnataka zone.

We have 6 zones with us and out of that, 30% of the business is given by our Bangalore branches which is around, so after the introduction of the e-khata where our average from Karnataka, we were getting around 275 crores per month, it came down to 150 and anyway, we again picked up in the last quarter, it touched around 225.

So that concentration risk was there. To allay that concentration risk, we have, it was a strategic decision that we will be opening branches in our North and Western sector where our housing business is really good and where we expect that the overall, over-dependence on this Karnataka or Southern region, that will get allayed and that will get distributed. So it is a strategy for us that we are opening most of our branches, 90% of our branches in North and West.

Questioner: So we have done 225 per month in Karnataka basically?

Management: That was the average that we did last year for Karnataka. In fact, we were doing 275 after the introduction of the e-khata, we took a hit. It came down to around 150 to 160. From there again, we picked up in the last quarter. So we expect that this e-khata issues will gradually settle down and again, we will be able to touch a level of around 300 plus in this fiscal. That average business per month. That is business per month.

Questioner: 300 by broadly which quarter? Q2, Q3?

Management: Q4. This is the average.

Questioner: For the whole year, right?

Management: Yes, yes.

Questioner: So you are saying approximately 3,600?

Management: Yes, from Karnataka.

Questioner: And total?

Management: Total, see, we are projecting a figure of around INR10,500 crores. We have already done 2,000 plus crores in the June quarter and this was the first time we reached that 2,000 mark in our history. We expect to do around 2,500 this September quarter.

We are moderating it for the third quarter because our IT implementation will take place in the month of November. So here also we are projecting 2,500 and the differential amount we expect to cover up in the last quarter.

Questioner: And so, I mean, I know there is a lot of concern that with your IT cost, your overall ROA, ROE comes down in the short term, right? How big is that impact?

Management: See, our IT cost will be around INR300 crores. Out of that 100 is capex and 200 is opex. And this is also getting amortized. Yes, so that will not be much.

Questioner: So 200 is capex, 100 is opex, or which opex?

Management: 100 is capex and 200 is opex.

Questioner: I see, reverse, 100 is capex, 200 is opex. And of the 200 opex, what is the distribution across different years?

Management: INR40 crores per year over the next 5 years.

Questioner: And then you are also saving something. So what is the delta? What is the difference? It's not INR200 crores?

Management: At present, with the IT cost, what we are looking for is improvement in efficiency, effectiveness, and productivity. There is no one-to-one relation as of now that by doing this implementation, we are saving all such...

Questioner: But I thought on one of the calls, you mentioned that while there is a INR200 crores opex, you save on the previous system, on the older system, opex, no?

Management: See guys, the one major reason for why we have gone for this IT transformation is that we are using a package which was implemented in 2011. So more than the cost-benefit analysis, it was high time that we...

Questioner: And what are some of the tangible benefits you expect from it?

Management: Automation, increasing productivity, increasing the turnaround time, things will be faster, and more transparency in terms of reporting and doing more analysis. Like, as you mentioned just now, it is more the need of the hour at the moment. So just to say that we can't expect to grow beyond this point without a good IT platform.

Questioner: So, I'm assuming that if you could grow at x with your current platform, with your new platform, you can grow at 1.2x to 1.5x or 2x. Can you give some sort of a heavy thought to that type of a measure?

Management: Not exactly in terms of that matrix of 1.2 or 1.5, but I think growth, the kind of derivatives which we have and the regulatory requirements which we have in terms of reporting and all, and the expansion which we are planning gradually, and we agree about the market in all other states. So it's really wrong to go with that kind of a growth without a decent IT platform.

Questioner: And what is, I mean, Sumit, can you just talk about your strategy or long-term growth perspective? What are you doing? Today you are at X. What do you want to be in three years, five years? What are you seeing on a strategy perspective?

Management: We are giving a growth of 12% to 13% for this AUM growth. Okay. For this fiscal year '26. And then for the next fiscal onwards, we are projecting a growth of around 15%. And our basic thumb rule is that if the industry grows by say x, then we expect to grow by around x plus 2.

Questioner: X plus 2%?

Management: Yes, x plus 1, 2, x plus 2.

Questioner: Okay.

Management: So, and in fact, by 2028, our vision for 2028 is that we'll be touching 300 branches. We are presently at 234. And we'll be adding 15 branches this year. And by 2028, we'll be touching 300 branches.

Questioner: And 300 branches in about a year?

Management: That, see here, we are projecting a growth of 15%. So by that, it's good.

Questioner: Well, I know Canara Bank has talked about this and they ultimately want to divest some operator at the right price. And he keeps talking about INR1,000 plus, like in four digits, he says.

Management: But since the last, after the last five, six months, there has been no such discussions. I am from Canara Bank only.

Questioner: You are from Canara Bank?

Management: Yes, I am representing Canara Bank in Can Fin. So there has been no such discussions.

Questioner: But at least, you know, there has been multiple conversations on the Canara Bank concourse, right? And then the MD says, listen, this is not the price that we should do anything. We'll do something?

Management: Let us see when it will reach that point, whether at that time our bank will take that call or not, that I don't know. And that is the highest level. So let us see.

Questioner: I mean, home finance to me is such a good thing, right? So we also ask, please ask for that.

Management: No, please continue, please continue. If you have anything, then you can please pitch in.

Questioner: Yes, so I mean, the home finance, and I think the way the business level of every home says, you have very low credit cost, right? It's a high ROI business, you don't really need any new capital. You can sustain yourself, you can keep growing.

And you were saying 15%, I think you can possibly do even better than that is my opinion, right? If you are ROI, you're generating a 16, 17, between that's a 16 to 20. That is really a growth rate if you're not giving any payout, which I think you should not. I don't know if you agree or not. So I mean, is that something that is really possible? Do you think that is, I'm just being too optimistic?

Management: I don't think, I think we are, see, we have always given such growth levels. We are never saying...

Questioner: In the past you have, but what has caused, suddenly the investor base has become less excited about Can Fin Homes for some reason. What is that? What has caused that? That you know, your valuations have come down. And of course, e-khata issues have had an impact.

Management: Like I was explaining, if you see our geographical distribution of the branches, our branches are presently around 56% of our branches are in South. And this 56% of our branches are contributing 72% of our business. So it has been a conscious call to whatever branch expansion that will happen, that will happen beyond South. So that this concentration risk is not there.

We took a hit in quarter three. In fact, till quarter, half year of the last fiscal, we had done very well, and we had grown very well. And in fact, we were expecting very good business. Then suddenly this e-khata came in. Our Bangalore branches, that is Karnataka state, is contributing around 34% to 35% of our business.

Yes. Out of that, 30% is contributed by our Bangalore branches, around 30. So e-khata, that reduction happened from around INR2,400 crores to, we came down to around INR1,800 crores because of that. Again, in this June quarter also, our Karnataka, there was a slight negative growth.

Again, it started picking up from this. And maybe one of the reasons could be that because whatever positions we had given for that fiscal, we could not match it. But anyway, that was beyond our control because of the e-khata. Probably, if the e-carta had not happened, then we could have touched INR300 crores by the end of this last fiscal. But now we are expecting it. Things are gradually turning around, and we expect to do good business.

Questioner: Basically, one year lost. Last year, you could have done 26,000. You're saying this year, you'll do 26,000, right? But that's all.

Management: Yes. And in fact, we're gradually coming out of the dependence on our southwest branches also. We are expanding in the north and west gradually. And in fact, our north has grown in the last quarter by nearly 50%.

Questioner: The branches?

Management: Business. Businesses? Yes, I'm talking about business. Tamil Nadu has grown by -- year-on-year for the June quarter, it has grown nearly 36%. Then our AP has turned around. It has grown 40%. So, in fact, we are opening three branches in AP this fiscal, and we hope to make it operational before the end of this quarter.

Questioner: I mean, because I have always been impressed by how low your credit cost is, right? And so the business seems to be done very efficient, right? Your cost-to-income ratio is quite low. I mean, I don't have the numbers right now, but just broadly, I'm...

Management: Close to 18%.

Questioner: Yes, 18%, correct. So I'm just saying that as such, the business looks very good, right? And for such good business in a home finance, which is very secure, you don't have surprises like what you might have.

And then there are many other home finance companies which are creating a much higher multiple to what you are creating, right? And so when you talk to the investors, what are some of the key concerns that you are getting? It was primarily that, but last year, it was a surprise, negative surprise in terms of the growth, or was there anything else?

Management: This was the one thing, that growth was the only thing that they talked about. They did not talk about anything else other than the growth. And because...

Questioner: I think the only other thing that I can think of is the cost of your IT implementation will impact your ROE, ROE for a short period. How big is that impact, by the way?

Management: See, the total cost is around INR297 crores. Okay. And that also, I had explained that INR100 crores is capex.

Questioner: INR100 crores of that is capex, and INR200 crores is -- INR100 crore capex is over 3 years.

Management: So overall, it has an impact of INR40 crores per year.

Questioner: For the opex.

Management: And that will impact our cost-to-income ratio by 1 basis points maximum.

Questioner: And ROA, ROE?

Management: ROA, ROE, I don't think it will have that impact. Not really? It will improve only because of better business, because of more...

Questioner: So effectively, it's offsetting. And then you think you can go back to the 15% to 20% growth rate, assuming e-Khata issue is behind?

Management: We are not saying 20%, but we are saying that 15% growth will be expected.

Questioner: And you don't need any capital from outside, right?

Management: No, no, no. We are, in fact, having surplus capital.

Questioner: What is your CAGR now?

Management: 25%.

Questioner: 25%.

Management: So while the e-khata issue is not yet resolved completely, we are, like, back in business, we have clawed back a lot in the state of Karnataka also. I'm keeping that in mind. And also keeping in

mind our IT revamp in the Q3. We have moderated our targets by INR10,500 crores resources. So thereafter, it's actually 15%.

Questioner: Why shouldn't you be targeting more than 15% growth given you have excess capital? Like, why don't you consume some capital rather than preserve the capital?

Management: We have a growth rate that's stable.

Questioner: But that's my point. So if, suppose, you're generating ROE of 17%, 18%, I'm just making it up, grow at 20%, so you will start consuming some capital. And is there a restriction? Because it seems to me that housing finance is a very long-term business. And there's a lot of opportunity. Why, I mean, you have and you are, and maybe you're not staying, and maybe that is what you're intending. But given that you will have a system revamp, so maybe you're waiting for that, whatever it is. But there is no reason why you can't do more than 20%, given the capital you have.

Management: Let us start with 15%. See, it is better to under promise and over-deliver, isn't it?

Questioner: Yes, it's cautious growth.

Management: Yes, cautious growth is always there.

Questioner: But is there an aspiration?

Management: Yes, yes, definitely. It will always be there. But again, we are projecting 15% and we'll stick by that.

Questioner: Just to add on, sir, how competitive intensity has changed in last year, one or two years?

Management: Sorry?

Questioner: Competitive intensity has changed in last four quarters?

Management: So we have not seen much of a -- see, if you go by the competitive intensity, one of the parameters that we can assess or gauge is by our BT out. Our BT out is only around 3.6% to 4%. Our main competitors are LIC Housing Finance, Bajaj and Punjab National. We have PNB Housing. So for us...

Questioner: BT out you said is 3.5%.

Management: One slide is also there on that. But again, if you go by that, 3.81%, that is all that is going out. That will include the BT out factor also. This is for this Q1 and this is Page number 25 of our investor's presentation.

Management: It's basically the ticket size which we operate into, BSU banks don't operate in that, they're not that...

Management: Average ticket size is 24 lakhs. BSUs will be around 35 lakhs to 40 lakhs. And in fact, we are concentrating on the peripheries of the cities or in the Tier 2, Tier 3 towns. If you see our funding profile, meaning what are the types of units that we fund, around 64% to 65% is plot plus construction, not flats.

Questioner: And what is your exposure to affordable housing?

Management: Affordable housing will be much less than that. Exact figures, I'll not be able to give you that exact figures. But if you go by our ticket size range, 11% is our 10 lakhs. And 10 lakhs to 20 lakhs is 21%. Affordable will be somewhere around that band.

Questioner: Right, right. And as a strategy and as you're also going more like north, are you looking more like as a strategy to probably more positively on affordable housing?

Management: No, I think affordable housing will not be concentrating on that. In fact, probably that...

Management: Because there are no further incentives for affordable housing thing, so we are focusing more on that 20 lakhs.

Management: Our segment is around 20 lakhs to 30 lakhs or 20 lakhs to 35 lakhs beyond that, beyond the banks which they target and somewhere above the affordable housing. So that we'll be operating in a space where we may not be able to offer the rates that the higher ticket size will demand. That may not be sustainable for us. We are going for that only. And around 25 lakhs is our average ticket size.

Questioner: How much is the BM? I've asked you. There is a new version of that, right? Is that helping you or it's...?

Management: No, no. It's not helping. A lot of changes has happened. This is 2.0. In fact, if you go by that, we had around 300 loans. Out of that 70, we could assess and finally we could disburse only 7. So a lot of changes has happened. Some of the factors are that one is that there is a portal where I think there are around 100 data points that has to be filled in.

Number two is that in a family, a lot of restrictions have come in. Number three is that the subsidy that was given, that is around -- it is coming to 35,000 per year. Fourth is there are no incentives for the builders. So probably there is a lot of restrictions that has come in. Maybe in the 1.0, a lot of leakages may have happened to stop those leakages.

Management: Just to stop the leakages, they have made it more...

Management: Very, very rigid.

Management: Just taken away the sign of that scheme. Now it's almost -- as just now we told that INR35,000 is basically 1 EMI per year.

Management: Particularly 1 EMI per year. So a lot of incentives have gone out.

Management: Builders are not getting the money.

Management: More of a supply side than a demand side.

Questioner: So when you say INR10,500 crores of disbursement, let's say you are not counting a lot of changes.

Management: No.

Questioner: NIM assumption that you are expecting NIMs of 3.5%, that is only plus whatever the numbers. I mean, is there any considering the rate cut already happened or is it also considering anything else that could come this year?

Management: It is considering everything that our guidance is that only.

Questioner: 3.5 is the metric?

Management: 3.5 NIM and 2.5 is spread.

Management: This is our guidance.

Questioner: On a rate cut, you will still be able to hold on to that number...

Management: Yes, that will protect that.

Questioner: It is because everything is floating for you. So whatever is the cost, we just pass it on. Plus your NHB plus that is also with a lag, right?

Management: Yes, NHB is with a lag and in fact, NHB has reduced their rates by 30 basis points. So that also will come in and in fact, NHB is our largest contributor in our portfolio.

Questioner: 3.5 will be sustained, but what would be in terms of Q2, Q3, do you see any...?

Management: This is our guidance for the...

Management: Because on our asset side, 60% of the loan are on annual reset. So we will give them in a gradual manner, like not everything will come at a time. And from the liability side, we have got the benefit of our rate cuts from almost every lender. One big lender was there of around INR2,502 that also have passed the benefit to us. So that in fact will give us a benefit in terms of spread for the next few months till the time we pass on the benefit to the asset side.

Management: And we will be passing on the benefit only after we receive it. And that lag will be around 2, 3 months. And like our CFO has explained, 67% is an annual reset.

Questioner: Yes, 67?

Management: Yes.

Questioner: Okay. So this portfolio is AUM, 64% is put into construction. So does that mean it is being lent to the builder who is constructing or...?

Management: See, these are individual houses, not builders. We don't have any builder finance.

Questioner: Okay, individual houses, self-construction.

Management: Self-constructions.

Questioner: You had increased your provision buffer, I believe, last year. So if you could comment on that and are you looking at any write backs in this year and going ahead?

Management: No, in fact, you are talking about the ECL and management overlay, right?

Questioner: Yes.

Management: So, we have provided for the management overlay in a conservative manner to have some buffer. And if you see in 31st March and then also in the June Q1 numbers, our delinquencies have come down. The overall delinquency was an absolute amount, which is basically SMA 0, 1, 2 and NPA. All together it has come down. And sir also told in the beginning that...

Management: Q4 we are around 4,265. Now it has come down to 3,980. It has further come down.

Management: So while we have these numbers coming down and we also see improvement in the upcoming quarters, but as of now there is no such write back of provisions from that. And since we are following the ECL model, so basically that comes through a trend of last five years or seven years.

So we will follow the trend, and we will take the provision, basis the model, what it throws. And not as a profit or write back management tool to reclaim the profit or provide some other options.

Questioner: So this year credit cost will be in what?

Management: 15 basis points.

Questioner: Is that your long-term expectation?

Management: Right now it is 13 basis points. We have just kept a cushion and taken 15 basis points.

Questioner: And in terms of I think you are expanding your direct sales team. So if you... I think you have increased your team to 100. Yes. So how much can they contribute by when? And how much proportion are you looking for them this year, next year?

Management: See the first thing is that this is not a DST. They are our employees only. So it doesn't mean that we'll pay a salary of around INR25,000 to INR30,000 and everything will be incentivized. Because the turnout rate is very, very high. Sometimes it is 100%. And in fact, our thing is only around 15%.

So we are expecting around INR60 lakhs to INR70 lakhs per month per employee from them. And in fact, in the last fiscal, they had done around INR70 lakhs to INR75 lakhs per month per

employee. So, from a team of around 30, 35 people, we have now increased it to 100 people. And this is one of the ways where we'll be increasing, expecting our business growth.

And last year we had a target of approved project files around 75. That we could do, achieve 80. So here this time we are expecting a growth of around 300 this year.

Questioner: And so just maybe the economics of that, you're saying INR70 lakhs per month is a disbursal per employee. And what is the cost? Is it INR25,000 per month?

Management: No, no. Their average salary will be around INR42,000.

Questioner: INR42,000. And you don't give them incentive on top of that?

Management: No.

Questioner: There's no incentive.

Management: It's basically a fixed rate. Yes, yes. It's a fixed rate. It's a salaried thing.

Questioner: And so why is the attrition so high there?

Management: No, attrition is not high for us. We are only around 50%.

Management: Just to address the attrition, we have gone to this point.

Management: Yes. In fact, our attrition rate for Can Fin Homes is one of the lowest in the industry.

Questioner: I see. So, you're saying for the industry it's 100% and for us it is 15%. Is that what you're saying?

Management: In fact, in the last quarter, we measured our attrition was only 3.5%. This is only for June quarter. That figures. Otherwise, average it was around 15%. But that attrition will be many. They have resigned and left. And then they were not able to achieve the sales target. So, they have to go. We took a very...

Questioner: So you'll basically fire them if they don't achieve the sales target? How does it work?

Management: So we'll be giving them targets. And we'll be giving them a certain period of time by which they have to... Then we'll be giving them chances also to... So that if they're not able to do it, then they'll be... We will not terminate them. We'll ask them to go through all the looks, all the trials. Yes. So that they can at least... If not in Can Fin Homes somewhere, maybe they may be able to do better.

Questioner: The reason I'm asking is because sometimes terminating employees...

Management: Yes, we don't terminate. ...is hard. We don't. We give them a chance.

Management: We don't follow that.

Management: Yes, we don't follow that.

Questioner: Right. So if you do INR70 lakhs, right? And even if I assume 1% ROA, which is... So INR70 lakhs is INR70,000, right? Approximately. And you're giving them INR40,000. So they are quite accretive to your profitability, right?

Management: Yes. So basically, four files, four cases per month. Four to five cases. In fact, with industry standards, we are doing quite well in that aspect also.

Management: I mean, given the ticket size of 20 lakhs...

Questioner: Yes, so it's 100 lakhs. I mean, one file will fall through, whatever.

Questioner: And how fast are you planning on growing this sales team? Like you said, 100 will be this year. 100 is already done, right?

Management: So let's see. Last year, when we introduced the concept of a sales team, it was a totally new concept. And we wanted to find out whether it is working for our company or not. So since it had given positive results, from 33, we have increased our sales teams to 100. So we expect it to carry it forward. And let us see how it pans out. But let us first complete this aspect.

In fact, we have a target of reducing our dependency on the DSS from... Presently, we were at 80%, from there, we came down to 79%, we have projected in our Vision 28 document, we have said that it will be 60%-40%. That is 60 DSS and 40. But that has not come down the way we were expecting. But let us see how this one...

It is not by replacing the DSS. But along with that, our sales team will grow in such a way, so that our dependency on the DSS will get reduced.

Questioner: Can you talk about the economics for a DSC? If a DSC gives you, how much commission do you have to pay?

Management: Around 2%-2.5%. So, 0.45w% we are paying.

Questioner: Sorry?

Management: 0.45%. Roughly averaged. Okay.

Questioner: So if suppose they are generating INR70 lakhs, right? So INR70,000. So you are paying approximately...I mean, I am just doing an employee versus a DSC comparison. So let us say your target is INR70 lakhs per employee per month. So, if I just say INR70 lakhs times 0.45%, right? So that is around INR30,000-INR35,000 thousand, right? Versus you are paying salary of INR42,000. So it is very similar.

Management: But the benefit with the employee is different. So we are not moving from DSC because of this cost benefit only, rather than the focus is on the stickiness of the portfolio. So because of DSC, we have a risk of BT outs.

Management: The BT out for the DSS-sourced loans increases, or rather it is very much there. But for an employee loan, it won't be there.

Questioner: I see. But BT out anyway, you said only three competitors are there, right? HDFC, PNB and Bajaj...

Management: Although this is an average pan India.

Management: Ah, so but here the DSA will instigate the customer -- because he wants to earn again on that same sourcing.

Management: Another thing is that suppose if you are dependent on the DSS, DSS will give the type of loans they want us to do. There probably we won't have any choice. But when our employees source a loan, we'll be able to take a call that whether we want to do that or not. And if you become totally dependent on the DSS, then any type of loans may get done. So those things... These are some of the factors or thought processes that have gone into taking...

Questioner: So why aren't you growing the DST faster?

Management: We don't have a concept of a DST. We have not thought about it.

Questioner: No, so what is this 100 people?

Management: They are our own people, no? They are not a direct sales. We cannot call that a DST. They are our people only, no? DST means 25,000, 30,000, then based on totally incentives. That is why I said that there is an attrition rate of around nearly 50% to 100% in our...

Questioner: But why aren't you growing your employees faster doing this work?

Management: Let us say we have just started last year.

Questioner: So you're saying it's an experiment?

Management: Yes, that has worked out and then gradually we will grow out. Because see, Can Fin Homes is in existence since last 38 years. So, we did not have a sales team. Now we are introducing that concept. It is basically a credit oriented temperament was there. Gradually we are trying to orient it towards sales. So it takes time. It's a matter of culture.

Questioner: So that I can fully understand, but based on what you are telling me, what I feel is this experiment is successful is from what you are saying?

Management: Gradually you are going on adding...

Questioner: And so if it is working, you will keep adding?

Management: Yes.

Questioner: So out of INR10,500 crores this year, how much are you expecting from your own sales team?

Management: The target for 28 is 60%. Right now, till last year it was more than 80% was DSA was sourced. Now it is 79% as on June or March.

Management 2: But it won't come down so quickly. In fact, we are expecting a higher number to come down from say 79% from 80% to say around 75% to 70%, but it does not come down. So it will take a while.

Questioner: But would you have a number in your mind that 100 people would be generating a DSA?

Management: See, we have kept an average of 60 to 70 lakhs per person per month. So if you calculate it, it will be around that only. 70 lakhs, 80 lakhs will be per person roughly.

Questioner: And to reach 80 lakhs per person, that would take...

Management: See, four to five cases if they are doing per month, then they should be able to reach because our average ticker size is around 24 lakhs.

Questioner: I think what he is asking is how quickly they become productive so that they can do four cases?

Management: You have to give them -- for a new person, you have to give them 3 to 4 months. Isn't it?

Questioner: Yes.

Management: Totally, they are reorienting themselves from one way of doing work to another way of doing it. Sales is a totally different type of temperament. We have to give them some time for them to pick up and then they will pick up.

Questioner: So say like around next year, they should be generating ideally 800-900 per month?

Management: Let us see should be ideally.

Questioner: Yes. I think it will be higher than that.

Management: Let us see.

Questioner: You have to read between the lines.

Management: Let us see.

Questioner: What are other things that you wish investors knew about you, what they are thinking about it?

Management: See, we should be. All things are falling in place. We have introduced so many new systems of doing our work. This IT transformation was something which had not taken place for say we are using a package which has a vintage of 2011. We are gradually migrating to that. And our IT transformation is all within the timelines.

In fact, there is a daily meeting between our core teams. Then there is a weekly meeting. And then in the fortnightly meeting, the MD, DMD and CFO, all of us sit together too. And it is a phase-wise implementation. HD1 which was slated to be completed by September. We have already completed by August itself.

Questioner: [inaudible 0:40:08] IBM.

Management: Yes, our SI is system integrator is IBM.

Questioner: Okay. And what is the package you are using?

Management: Package for LOS, LMS, it is Pennant.

Questioner: What?

Management: Pennant.

Questioner: Pennant.

Management: Pennant. I think Bajaj is also using and if I am not wrong, then I think LIC is also using Pennant, if I am not wrong. And, in fact, if you see, both LOS and LMS is from the same vendor.

Questioner: Who is that?

Management: Pennant.

Questioner: Pennant is the name of the vendor?

Management: Name of the vendor. In fact, suppose LOS is given by X and LMS is given by Y, there are some integration issues. So that time before floating the RFP, we had insisted that both LOS and LMS should be of the same vendor. Then HRMS is from work line and Infor will be giving us this GL and accounts and all that.

Questioner: Infoline is for what did you say?

Management: Infor. Knight Fintech is for our borrowings and treasury operations and work line is for our HRMS.

Questioner: Work line is for?

Management: HRMS.

Questioner: HRMS. [inaudible 0:41:19]?

Management: In fact this will all be integrated. Now we are having standalone systems. Now it will get total overall.

Questioner: Whether it will improve the processing time?

Management: It will certainly improve.

Questioner: That is what we think that it will improve the efficiency, productivity, control and like turnaround times for everything. In terms of conversion of loans, empowering the people at branches to making the more centralized processes at issue.

Management: Everything.

Questioner: And right now decision making is centralized, or it is done by branches or there is some limits on like?

Management: There is some limits. Decision making means sanctioning.

Questioner: Yes, sanctioning.

Management: Yes. One of our ESPs is that our branches are empowered with a certain level. I think around up to 35 lakhs they can sanction. The rest is coming towards [inaudible 0:42:12] and then higher than that it will be coming to RO which is very rare. In fact, last year we had also undertaken another transformation or change in our organizational structure. Earlier we were a two-tier structure branch and the registered office or the head office.

Now another level has been, layer has been brought in that is the zonal offices. And we are now having six zones that is Karnataka, Tamil Nadu, then AP and East and in North, West and North, West and one more was there, six zones are there.

Questioner: North zone, Tamil Nadu, East zone and West zone?

Management: West zone, North and one more was there.

Questioner: Tamil Nadu.

Management: Karnataka, Tamil Nadu, Telangana. Telangana we have – this Telangana set we are having 19 branches there and Karnataka state and Goa. Tamil Nadu we are covering the states of Tamil Nadu and Kerala. North, we are covering the states right from Punjab, Chandigarh, then Uttarakhand, UP.

And in the West, we are having this Gujarat, Rajasthan, Maharashtra, Madhya Pradesh and under AP and East, we are having the state of Andhra Pradesh. And we are having the Eastern states of Odisha, Chhattisgarh, Bihar and West Bengal, but that is very limited around 10 branches are there in those four states.

Questioner: Right. And if I am a salary employee and I want a 15 lakh home loan, how quickly I get a sanction?

Management: See, it depends on if you are able to give your documents, everything then it takes around 5 to 7 days we will be able to give your sanction.

Questioner: With a sanction?

Management: Yes. But of course, your documents should be complete.

Questioner: So the main thing is in documents only to get the search of the property papers. And it depends on state to state which state has more land reports, more faster or something. So from Can Fin Homes, I think the credit appraisal under will be very fast. And we are not lagging behind with any of the other competitors, so to say. If you compare us with Bajaj also we are not lagging that behind.

Management: In fact, we take around 3 to 4 days for this legal search and our valuation are another three to four days. It will take around the cycle of around five to seven days, provided everything is as per the requirements.

Questioner: And post tech transformation, the stat would be?

Management: It will be coming down further, because the legal search that has to be done through the SROs. There we don't have any control.

Management 2: These all other things will be like the PAN verification, Aadhaar and all then through Karza then there are other apps, account aggregator to fetch the online account statements, bank account statements. So it will be a very good reduction in tax not just the reduction in tax, but in terms of by not passing away the controls and in terms of accuracy of the things. Removing that manual dependency will.

Management: Lot of things will fall into place. Especially our MIS also, it will be very, very helpful.

Questioner: So once this e-Khata comes in Karnataka will that speed up your turnaround time?

Management: It is already coming?

Management 2: It is already coming. It is getting implemented. But see, that is an external thing.

Questioner: Will that help you reduce how quickly you can give the sanctions in applying the document or something?

Management: The discrepancy between the land records and the municipal corporations. So as a system, it might be good, but there are two government departments should talk to each other.

Management 2: They talk to each other.

Management: For example, I just said that our legal search will take around three to four days. If you are getting it by one day, then our time will get reduced by three days as simple as that.

Questioner: The other question I have is you said that branch is empowered to make the decisions for the sanction letter. How do you ensure that the branch is not fraudulent behavior?

Management: Yes. We have a system of -- we have a centralized credit review monitoring department. So whenever any loan is sanctioned by a branch, it has to come to our CRM for the review.

Questioner: After the fact?

Management: After the fact. Right now it is after the fact. In fact, we will be implementing a pre-disbursement review. That is under process and in fact, it is nearly underway also. So it will be coming to us and they will be checking it. And they will be also giving the review observations. And we have a centralized inspection team also, which will ensure that whatever the observations that has been put forth by our CRM department has been complied with.

Questioner: Right. Did you have the issue where one of the branches there was a fraudulent behavior or no? I don't know. There was one of the Housing Finance Companies. Can you find out?

Management: See that you are talking about 2023. [inaudible 0:47:37], we had. That was our accounting some...

Questioner: What I'm trying to figure out is, I don't want to know specifically the issue. I don't want to say that. But I'm just trying to say what caused it. And what are the countermeasures you're taking so that it doesn't happen?

Management: Countermeasures, we have automated the BRS.

Management: We have automated the bank reconciliation thing. We have now blocked the GLs.

Management: So that was mostly a BRS issue, like some not provision of BRS. So that was not giving us the full visibility of where the funds are being parked. So what I understand from the earlier discussions, so now it's an automated daily BRS.

Questioner: Can you just explain in a layman's term? I don't understand the BRS concept. So my question is, I go to the branch, right? The branch manager is my friend. I don't have the documents. He still gives me the loan, right? That is what happened. I don't know that is what happened or not. But what I'm trying to figure out is, how do you prevent a similar situation now? What are you doing differently now?

Management: What we're doing is, we are -- so that happened only because of lack of bank reconciliation. But if you're paying someone and you're not passing the entry in the books, so the money is going out of the bank account, but it's not registering in the...

Questioner: On your side?

Management: On our side.

Questioner: So you're giving the loan to the person?

Management: Not loan. I'm not giving the loan to the person. I'm giving the money to the person. I'm transferring the money to some account. And you're not posting the entry in your gill also. The bank gill will remain inflated. And you'll see that, you'll say that, okay, it's pending reconciliation. It's happening. It will get reconciled.

Questioner: Some entities are pending. So you are not even seeing that actually you have sanctioned and disbursed the loan, but actually you have?

Management: I don't know about that much. It is something like that.

Management: But all those...

Questioner: I see. I'm able to record both of you.

Management: Yes. That's why you may need to go there.

Management: Even if it is before, now we are part of it.

Questioner: What are the risks that you see with this business? What are the other risks that you see with this business that you need to think about? So one is the fraudulent behavior that I talked about. What are the things are important that you have to guard yourself against in this business? I think your model is such, your names, your spreads, you are very consistent. It seems that you have low cost of funds because your parent is in the bank.

So you get good, low cost of funds. And of course, your profile yourself is very strong. Even if tomorrow Canara Bank sells the state, it will not be an issue. You are giving out loans at a rate at which not too many competitors are giving out. LIC, Bajaj and PNB are the only three competitors.

So you don't have too much competition there. The credit cost is low. So one could be the credit cost. Let me ask you, the repossession of houses, how easy or difficult, like when a person defaults, can you talk through the process?

Management: When a person defaults, we will be following the surface route. We will be issuing a demand notice where we will be giving them a 60 days time period for regularizing the account. If they are not able to do it, then we will be taking symbolic position.

And within, and then we will be issuing this 13 phone notice. 13 phone notice means, now we are going to take possession of that property. There are two types of possessions. One is called symbolic possession, and the other is called actual possession.

Symbolic possession, we will be going and seeking our notice on that. But for getting physical possession, we will have to go to the Chief Metropolitan Magistrate or CMM office for getting permission for evicting the occupant from that property.

That usually will take some time. Sometimes we may go to that time. After getting that permission, we'll be taking physical possession. After taking physical possession, we'll be going for, we'll be taking all these bids. We'll be offering the property for sale. For that property for sale, that person has to deposit 10% of the reserve price.

After that, the bidding will take place. And once the bidding is over, we'll be handing over the property after he gives. And within seven days, he has to give the full amount. Sometimes we may finance that. Sometimes we may not finance it, depending on the profile of the person.

Questioner: So from the symbolic possession, so you said 60 days...

Management: Demand notice is there. That is called 13-2 on the surface, yes.

Questioner: So this is after it becomes NPA?

Management: After it becomes NPA only, we'll be issuing the demand notice.

Questioner: Okay, so 90 days or doesn't matter?

Management: Surface is applicable only for those properties which has become NPA. It is not an agricultural property. And third is that it has to be over 1 lakh.

Questioner: But as soon as it becomes NPA, you can start the process of settlement. So from the NPA, 60 days, you have the symbolic possession. And then from the symbolic possession to the actual possession is how long?

Management: It will take nearly 1 month.

Questioner: That's it. It's not that long?

Management: But it's not so simple.

Questioner: No, but you're saying it only takes 1 month?

Management: No, after 1 month, again, we'll be issuing the 13-4 notice that we are going to take physical possession of the property. We'll give one month. After that, we'll have to take permission from the CMM.

Questioner: So I'm just trying to understand, 3 months, 6 months, how long?

Management: The average cycle will be 6 months only. In fact, if you see the NPAs that has in place for the June quarter, we had allowed many properties to flow to NPAs so that we'll have a whole period of nine months to carry out the surface reactions. So June is the right time for allowing that property, for that loan to flow to NPA.

Questioner: And do you also do OTS or you don't?

Management: Yes, certainly. Wherever we are able to do it and whether it will be, if it is feasible for us, we do it. All those options are open.

Questioner: Typically, you don't lose money, right? If you take the actual possession and then you auction it...

Management: It will be dependent on the type of property that we had financed.

Questioner: In general, what is the record? If you look at historically, how much would you have lost on the possession of property? Over long term, how much would you have written off?

Management: See, if you see our write-offs are not much.

Questioner: So typically, if you will recover whatever you have gained, you might not get the interest in the worst case. But you at least get back your loan?

Management: Yes, of course.

Questioner: What would be a write-off pool?

Management: That I'll have to...

Questioner: Very less, very negligible. Yes, okay.

Management: I think that is for this only.

Questioner: It's not very negligible. And out of, let's say, this year INR10,500 crores interest made, how much are you factoring from Telangana?

Management: See, Telangana book size is around INR7,000 plus crores. And Telangana is also turning positive now. Average earlier, they used to do a huge amount. Gradually now, again, they are touching around INR100 crores now. So another, say, if you take an average of that, we have 6 plus 7, around INR800 crores, INR900 crores we should be able to get from Telangana. Telangana has only 19 branches. So they are...

Questioner: INR800 crores, INR900 crores? Full year.

Management: Full year, roughly.

Questioner: Telangana, I think you were doing INR2,000 crores before?

Management: Earlier we were doing. Then I think Telangana, when there was a change of guard in the political scenario, things changed. Hydro project had come in. So there was a huge fall. There was a negative sentiment. So Telangana also, we took a hit. In fact, 50% of the hit, 30% from Karnataka and 20% from Telangana. We took a hit last year. So now, gradually, things are turning positive.

Questioner: But Telangana, you are not seeing any kind of green shoot or anything which can be...

Management: It is gradually turning over. Last whole year, we had faced a lot of problems regarding this business, increasing delinquencies. From June quarter onwards, it is -- In fact, in the month of June, there was not a single flow from -- to NPA, from RSM2 to NPA from Telangana, which was quite an achievement. So things are changing now.

Questioner: And let's say in Karnataka, once the e-khata issue is solved, what sort of growth rate do we see in Karnataka?

Management: See, we were doing at around 275. And before e-khata, and now we have projected that we should be touching 300 per month.

Questioner: Gradually, month on month. 300 will be by Q4, basically. 225 for 30%, 10%, 20% growth. And currently, once we are...

Management: And in fact, see, if you see the trend, our highest business comes in the last quarter only. In fact, our delinquencies, everything comes down. It's something like a...

Questioner: What causes? Why is there this seasonality? Is it because people have more money then, or what goes on?

Management: I think most of the banking industry...

Management: Housing finance works like that.

Questioner: I know. Is it because there is a lot of push on the sales side or is it because the...

Management: Everywhere, if you see in the banking industry also, whatever we do, for us, money is the most important.

Questioner: I have seen that, yes. Now, but in Karnataka, once we normalize in Q4, post that, what sort of growth rate should we see in Karnataka? Because it is heavy, like 30%, 35% of our investment?

Management: That is gradually will be coming down, because we are increasing the number of branches and all those things. So, it should be coming down to around 27%, 28%. Because we'll be -- our other factors are also there. We don't want to be dependent on -- we want to avoid this concentration, yes.

Questioner: By 28%.

Management: Let us see.

Questioner: Thank you very much.