

Questioner: Good afternoon, sir.

Management: Hello, good afternoon.

Questioner: Good afternoon. Good afternoon, [Mr. Suresh 0:00:18].

Management: Hello, good afternoon. How are you?

Questioner: I'm good. Thanks so much for your time, sir. I just want to chat with you guys, once again I'll make this quick. I just want to get an update on all things on the ground, you know, how's the demand, anything stand out so far?

Management: Sure. See in terms of the demand, at least I can put it briefly in both, you know, July as well as August, we have done a disbursement of more than INR800 crores. So, you know, in fact we have been doing better month on month in this year. So April of course is always a, you know, very weak month post March figures.

But May, June, July, August every month we have been doing close to, you know, month on month we have been improving the business. In both the July and August we have crossed INR800 crores. Out of the 6 zones that we have, our North Zone, West Zone, East and Tamil Nadu continue to grow, very healthy growth they are having.

North Zone continues to be growing at around 40% plus which was the same as last year. So, there is no, you know, slowdown or anything there. Same also for our Tamil Nadu which is continuing to grow at 30% plus. It was 35% last year, this now also this is 35, 30%-35% is growing.

West Zone was 15% last year. It is started to improve further now. It was already 15% in Q1 also, but now in this July-August it has further improved because, you know, we have added some branches, and they are also started to deliver.

East Zone, which was last year flat is also this year growing because now there is a change of government in Andhra Pradesh and that has really helped. So basically all the other zones are continuing to growth.

In case of Karnataka, we are back to like in, if I look at other than April, May, June, July, August we are averaging INR225 crores-INR230 crores. We are INR225 crores. In August we have crossed INR230 crores also.

So, basically, we are, you know, reached that stability point at least whatever happened in Q3 where it suddenly dipped to INR150 crores. We have recovered back from that and back to the normal. And with H2 where normally business picks up, we definitely hope to end somewhere more than INR3,000 crores for the year which will be about 10%-12% growth, 10%-15% growth in disbursements in Karnataka also. So, that is the, that is where we stand.

Telangana is not actually showing much of a growth, but we are hopeful that, you know, by end of the year that will also improve. Telangana anyway last year did about 1,200 --

INR1,198 crores. So, it is not a very large number. This month also we have done INR90 crores-INR92 crores or something.

So, it is not too much of a problem, but going forward we should be able to catch up and there also we are expecting about 10% growth for the entire year. Because basically, you know, last year we were doing almost INR120 crores-INR130 crores in the first beginning of the year. Then it went down right up to INR70 crores and then it is starting to pick up.

So again as we go, move forward in the next 6-7 months, this INR92 crores will eventually end up at around INR125 crores only. So, we will definitely have a growth coming from Telangana also. So that is basically the thing.

In terms of disbursement, it clearly shows that there is not much of a problem at least in the segment that we operate in. We are not having any issues and that is story pan India. So, not an issue.

Questioner: Got it, sir. That is very clear. Sorry, this year our disbursement target is how?

Management: It is INR10,500 crores. We did -- for the first time we crossed INR2,000 crores in Q1 this year. This is the first time for our Q1 figure. This quarter we are targeting 2,500. Next quarter again we will be targeting 2,500 although traditionally if you look at it, we should have touched INR2,800 crores.

But considering that there is an IT transformation project implementation which is due in November, I think 2,500 is what we are keeping a little bit of a buffer for that. And the fourth quarter we will cover up and do about INR3,500-odd crores to see that we are able to do some. The INR10,500 crores we are able to catch up.

Questioner: Just on the pricing part and internal benchmarks, if I remember correctly, in March we cut about 10 basis points?

Management: In May, we cut 10 basis points. And then again in July we again cut another 15 basis points. And that is because if you see our cost of borrowing was 7.55% on 31st of March and by 30th of June we were able to bring it down to little below 7.3 to 7.27 or something.

So, basically, we had already experienced on the book liability side 25 basis points plus kind of a reduction. So, we decided to pass on the 25 bps to our customers. So, indirectly what I am saying is there is no compromise on the spread or anything. Whatever we have experienced only that we have passed on.

And obviously once we have passed on that thing it will be over a period staggered manner it will be passed on to our customers. Because some of them are on quarterly reset, some of them are on annual reset.

So, as and when the reset period comes, they will get the benefit of that quarter percent also. So, therefore basically our 2.62 spread as on 30th June is likely to slightly inch up to around 2.65, 2.68 by 30th September.

Questioner: Got it sir. And how is the PTR situation? Because the banks are automatically down 100 bps on their pricing.

Management: Correct. So, in fact recently if you listen to our earnings call and all we were actually saying that we might look at another rate reduction in September, okay. So, that was because we were still expecting a couple of more rate reductions from some of the banks which actually came through in August also.

But what we felt was that you know slightly because of the geopolitical situation the bond rates have slightly increased by 7 to 8 basis points. So, whether to pass on or not, and secondly, we also checked with the branches. So, I don't think there is any pressure even the branches are not feeling much of a pressure of BT out. So, that gave us a confidence not to do it in September. We will see I will take a call in October again if required.

Questioner: I see. So, basically the PTR rate...

Management: Has not changed much. In fact none of the zonal heads or our branches actually mentioned about any pressure from competition.

Questioner: But why would you think that's the case because you know there is a 75 basis points kind of gap between your competitors. So, why the customers are pretty sticky?

Management: See actually you know what has happened is the 100 basis points rate cut that has happened all the PSU banks have passed on the full entire 100 basis points to the customers. Private sector banks have not passed it on to the existing customers as much because they are all still protecting their NIMS and everything. So, they have not passed on the entire benefit to the customers.

Although -- so, the existing customers have got the benefit because, you know, it is all linked to EBR. So, external benchmark rate. So, they have had to compulsorily reduce it for the existing customers but for the new customers they have not reduced it.

So, that at least is not becoming too much of a competition. And now when you look at HFCs and NBFCs except for LICA and us nobody has cut the rates. PNB was mentioning they have cut the rates but I am not sure. I have not you know seen any kind of coverage or anywhere.

But -- so, basically, you know, NBFCs and HFCs which are the main competition for us where the BT out happens, they have not reduced their rates. And new customers of course what is happening is new customers have been enquiring about the rates.

But because it is a low margin now product for the banks, PSU banks they are not very aggressive when it comes to you know takeovers and all those things. So, then eventually customers are continuing with us or are still continuing to come to us.

Questioner: Got it sir. Moving up to the strategy front, any, you know, any changes, any new initiatives that we should be aware of?

Management:

Yes, two things. One of course on the liability side we like we had done you know our entire shift from MCLR link to repo link earlier. Now what we are looking at is on the liability side one is we want to, we have taken the approval, and the AGM shareholders have approved the INR10,000 crores NCD raise.

So, basically that will allow us to block the rates for the funds that we raise from NCD now. Because I think we have almost bottomed out in terms of the rates. On the rate cycle we are at the bottom, maybe there is a talk of another 25 basis points, but we do not know.

So, at least I feel it is a good time to actually raise the NCDs at this rate, get it locked. So, that when the interest rate cycle reverses, we will be able to get the advantage when we move forward. And to that extent the second what we are looking at is currently we have about 67% of our loans are still in a annual reset basis.

So, our liability side is on quarterly reset, but our annual this thing is on a annual reset 67%. So, we want to see that, you know, these customers also move to a quarterly reset. So, that when the interest rate cycle reverses, there is a matching in terms of the liability side and the asset side.

So, that is something we will be pushing our customers to move more to the quarterly reset. So, that is one thing which is there. And the second thing is we have launched a new product called Canfin Vishwas.

In Canfin Vishwas basically we are targeting customers who do not have formal income. Because, you know, so far, we have lending only to those customers who have formal documented income proof. But this is a first product where we will be looking at customers who do not have documented income proof that is ITRs, or salary slips.

But who have a track record of credits coming into their bank account through the UPI transactions. So, based on a 2-year UPI transaction history we will be assessing their income and we will be looking at a loan for them. But we have capped that to INR20 lakhs that maximum ticket size. And second is we have also gone in for a credit risk guarantee for these loans.

So, that is one product we have just launched. We do not expect to do a very large amount of business. But at least slowly we would like to build the skill set and the appraisal models and everything for this particular segment.

Questioner:

Got it. I see. Okay. And on the IT projects, the one is starting in October as you were saying?

Management:

No, actually there are two phases we are doing it. So, first phase is the treasury module, borrowings and ALM module. That is scheduled to go live in September. So, we have already done the UAT for one particular cycle. And we are now going to run it parallelly for the entire month of September.

So, on 30th September we get it from both the old and the new system. And after that we will be doing it. So, that is going online, I mean that is going as per the schedule. And that will be implemented in this month itself.

The second and the more bigger part of it which is the LOS, LMS, the DMS, HRMS that is scheduled to go live in November. So, that also in September, October we will be doing a UAT and SIT and UAT and everything. And that also is as of now on schedule.

We are very much on course for it. Some of the other parts which is the infrastructure part, that is our SD-WAN setup and everything that has been completed. And even our Microsoft, we have to move from our existing mail package to Microsoft and Office 365. That one is also scheduled to happen in this month.

So, before 30th September our mail would have gone, we will get over. Our treasury, borrowing and ALM module will also get done. And our SD-WAN has already been done. And obviously if SD-WAN has been done means a lot of other things on smaller things in terms of our infrastructure are also done. Bandwidth and all those things.

And then the LOS, LMS part which is the core part of the lending side, that will happen in November. That is as of now as per the, you know, plan that has been laid out, it is going as per schedule.

Questioner: Got it, sir. So, the -- when we start in the two phases in September and November, is there additional costs that we can recognize?

Management: No, because actually the RFP that was quoted, the overall project cost was, project time period was 12 months from January to December. And then there is a 3-month hand-holding period which is there where you do the time and all those things.

So, basically the, up to 31st March, we, you know, as per the, this thing, we will be able to, accounting this, we will be able to capitalize everything. And the cost will hit us from 1st April only. So, basically in FY27, we will have the costs coming in.

So, there is a cash outflow which is happening in terms of all the hardware and all the, you know, some of the payments that are going in, milestone based payments. But all of them are capitalized, it is only, you know, advance payments in the, this thing, books. Actual capitalization, depreciation and AMCs and everything will come in FY27 only.

Questioner: I see. I understand. So, this year, in your first quarter, there is some cost increase to the compensation.

Management: Mainly because of, yes, mainly because of two reasons. One is, you know, we had this salary revision which happened and we did a compensation benchmarking. And with a view to have more, you know, comparable salaries to the market and to be able to attract better talent, we did a salary revision exercise.

So, that is major reason why, you know, we had an increase in the thing. And the second thing is, you know, last year, if you recollect, we had introduced a new layer of zonal offices to strengthen our oversight and all those things. So, in, most of the zonal offices were set up in the second quarter and third quarter.

Therefore, in first quarter, there is no expense of rent and all those things. Whereas, now in this year, the entire, all the six zonal offices, the rent expenses and all are getting reflected. So, to that extent, there is a little bit of increase in the rent and that also. Otherwise, by and large, all other expense heads are comparable.

Questioner: Got it, sir. So, cost to income this year should be somewhere about 18%?

Management: 18%, that is correct, 18%.

Questioner: Okay. And then next year, when this capitalized cost will show depreciation, what does it mean?

Management: So, that another INR40 crores net is likely to be added. So, that will be around another 1% to the cost to income ratio. Because our, currently also our total income is around INR4,000 crores. So, effectively INR40 crores will be 1% more in terms of the cost. So, it could be 19% next year in terms of the cost to income ratio in FY27.

Questioner: Got it, sir. Going on to asset quality, are you seeing anything that is worth highlighting, any trends that you are seeing?

Management: Not really. Not really. In fact, our check bounce rates and all are holding up. There are no issues on that. In fact, if you see, our delinquency had peaked in December 2024, when it was at INR4,880 crores or something. From there in March, it came down to INR4,266.

Now, obviously, Q4 is one quarter where everybody's delinquencies come down. But in Q1 of this year also, it has further come down from INR4,266 crores to INR3,980 crores. So, there was a, unlike normal Q1s where the delinquency goes up, in our case this year, our delinquency has actually come down.

And going forward in July-August also, we have worked on the collections. So, as of 31st of August, our delinquency absolute number is, in fact, further come down from June. It is today as we speak below INR3,900 crores.

Questioner: I see, sir.

Management: So, it has further come down.

Questioner: Just wondering, our LAP portfolio, what kind of ticket size is that?

Management: The LAP book, our incremental is around INR14 lakhs is the average LAP book. Incremental.

Questioner: Okay. Okay. And the customer base for the LAP, is it similar? Is it kind of a top-up to your existing...?

Management: Mostly it is top-up. Mostly it is top-up. That is why it is 14. But for new LAP, we are giving up to INR20 lakhs-INR30 lakhs also is there. Our maximum limit for new LAP is around INR40 lakhs.

Questioner: I see, sir.

Management: Zonal offices have the power to do up to INR40 lakhs. So, by and large, everything is below INR40 lakhs only.

Questioner: I see. Is there any, you know, some delinquency trend [inaudible 0:18:12]? There are some concerns of small businesses.

Management: You are right. Actually, in small ticket LAP, there is a slight uptick, which I hear in the market, which is there reflected in our, you know, this credit bureau information also. But since our LAP is mostly either to existing customers or they are decently INR15 lakh-INR20 lakh kind of a LAP, therefore, it is not kind of a risky, it is not showing any major trends as of now.

And actually speaking, you know, we opened up our LAP only in January 2024 for new customers. Prior to that, it was only for existing customers where the LAP was being given. So, our portfolio is not very old whereby, you know, we have those kind of any issues or anything coming. We have been very careful. It has been very small portfolio also for us.

Questioner: Okay. Cool. [Inaudible 0:19:09], is there anything else you want to highlight that I forgot to ask?

Management: No, I guess, as I mentioned, there are two major things out there. One is that we want to, on the liability side, work on our repricing from annual reset to quarterly reset and this new product. And otherwise, I think, this quarter we are expecting that our delinquency even in September will hold up and we should be able to report below INR3,900 crores in case of delinquency, which I had already highlighted in our last quarter earnings call also that in Q2 also our delinquency will come down.

And second thing is, you know, in terms of the spread, because there is a lag effect and we have not passed on any further rate in September. Therefore, we are likely to see a little improvement in the spread in Q2. So, and with delinquencies coming down probably, you know, our credit costs will probably be better.

We have anyway given a credit cost guidance of 15 basis points only. It will definitely be below that. Looking at the trend of reducing delinquencies, I think it will definitely be below that. No issues on that.

Questioner: Okay, sir. Cool. Thank you so much. Thanks, Mr. Suresh.

Management: Thank you. Thank you so much. Pleasure.

Questioner: Thank you.

Management: Pleasure talking to you.

Questioner: Thanks for the time. Bye.

Management: Thank you. Bye, bye.