



Can Fin Homes Ltd
(Sponsor: CANARA BANK)
HOME LOANS • DEPOSITS
Translating Dreams into Reality

CAN FIN HOMES LIMITED

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CFHRO SE CS LODR 25/2023

January 24, 2023

ONLINE SUBMISSION

National Stock Exchange of India Ltd.,

Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E)
Mumbai – 400 051

NSE Symbol: CANFINHOME

Dear Sirs,

Sub: Transcript of Analyst/Investor Earnings Call for Q3FY23 Financial Results

Ref.: Our letter CFHRO SE CS LODR 22/2023 dated January 20, 2023

In continuation to our above referred letter, please find attached the Transcript of Analyst/Investor conference call/earnings call held on January 20, 2023, Friday.

The aforesaid Transcript is also made available in the Company's website i.e.,
<https://www.canfinhomes.com/analyst-meet.aspx>

This intimation is submitted pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Kindly take the same on the record.

Thanking you,

Yours faithfully,
For Can Fin Homes Ltd.,

Veena G Kamath
DGM & Company Secretary

Encl: As above.



“Can Fin Homes Limited
Q3 FY '23 Earnings Conference Call”
January 20, 2023



MANAGEMENT: **MR. AMITABH CHATTERJEE – DEPUTY MANAGING DIRECTOR – CAN FIN HOMES LIMITED**
MS. SHAMILA – GENERAL MANAGER – CAN FIN HOMES LIMITED
MR. APURAV AGARWAL – CHIEF FINANCIAL OFFICER – CAN FIN HOMES LIMITED
MR. PRASHANTH JOISHY - EX- CHIEF FINANCIAL OFFICER – CAN FIN HOMES LIMITED

MODERATOR: **MR. NIDHESH JAIN – INVESTEC CAPITAL SERVICES**

Moderator:

Ladies and gentlemen, good day, and welcome to Can Fin Homes Limited Q3 FY '23 Earnings Conference Call hosted by Investec Capital Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during this conference call, please signal by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nidhesh Jain from Investec. Thank you, and over to you, Mr. Jain.

Nidhesh Jain:

Thank you, Neerav. Good afternoon, everyone. Welcome to the Q3 FY '23 Earnings Conference Call of Can Fin Homes Limited to discuss the financial performance of Can Fin Homes and to address your queries, we have with us Mr. Amitabh Chatterjee, Deputy Managing Director; Ms. Shamila ma'am, General Manager; and Mr. Apurav Agarwal, CFO of Can Fin Homes Limited.

I would now like to hand over the call to Mr. Amitabh Chatterjee for his opening comments. Over to you, sir.

Amitabh Chatterjee:

Good afternoon, all dear investors, and welcome to this Q3 earnings call. And to start with, our company Can Fin Homes has completed 35 years of existence. And during this year, we have reached a milestone figure of INR 30,115 crores. We have crossed the INR 30,000 crores figure, registering a nine-month growth of 20% Y-o-Y and our disbursement growth in these nine months from INR 5,500 crores to INR 6,410 crores, registering a 15% Y-o-Y growth. And our income has risen by around 38.65% from INR 1,427 crores to INR 1,978 crores.

Our operating profit has also shown an increase from INR 487 crores to INR 644 crores with a 32.13% growth. And our PAT from INR 348 crores has become INR 455 crores, registering a 30% growth. Gross NPA has been well contained. We are now around 0.60% gross NPA and net NPA is around 0.30%. So, our asset quality has remained stable.

So with this, I request the investors to ask any questions they have.

Moderator:

The first question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal:

I had two questions. The first one on, how are you looking at the demand environment right now? Y-o-Y disbursements were largely flat in the third quarter. So is there some sluggishness in demand, which has started coming in because of the high mortgage rates? Or would you say that 3Q was more of an aberration and you can again expect buoyancy to be restored from the fourth quarter onwards? So that is my first question, sir.

Amitabh Chatterjee:

Just to answer your question, the demand is intact despite the rise in prices or rise in the cost of the building. And going forward, I think that desire to have an ownership of house in the affordable segment is quite good. And demand will be remaining intact in the coming quarters.

Coming to Q3, I think we have disbursed more than September. It is registering around 9% growth. And as far as book is concerned, 4.4% growth is there. And I think whatever we projected, 18% to 20% Y-o-Y, both in terms of disbursement and book growth, we are maintaining that trend.

Abhijit Tibrewal: Sir, the second question that I had was on the liabilities side. Just trying to understand, I mean, may be two subparts to this question, what was the total borrowings number as on December?

Amitabh Chatterjee: Total borrowings were INR 27,800 crores.

Abhijit Tibrewal: So sir, on the liabilities side, I wanted to understand that, I mean, how much did you borrow from NHB during the quarter? And are there any current undrawn sanctions from NHB, which maybe you're looking to draw down in the fourth quarter? And sir, what we have seen that during the quarter, you have borrowed, I think, more extensively in the form of NCDs, commercial papers, basically from the debt market. You've also drawn down from NHB during the quarter?

So wanted to understand, I mean are these loans, NCDs and CPs kind of coming effectively, I mean, lower priced versus bank term loans and which is why you are moving there? Or is the idea that given that 25% of the incremental borrowings during the quarter has to happen through debt market instruments, which is why you are maybe kind of borrowing through that instrument in the first nine months of the year. And then maybe in the fourth quarter, where we'll see more borrowings from the bank?

And sir, related question again here is that if I look at the margins, given that you have an annual reset on the loans that you have given, homes loans that you have given to the customers, is there a reason to believe that margin compression will continue for one or two quarters depending on the trajectory that repo rate will take. And then from there on, we can expect some improvement in margins or some stability in margins?

Apurav Agarwal: To answer your first NHB question, I think we have borrowed around INR 900 crores during this quarter. We have got a sanction of around INR 1,500 crores from NHB. Out of that, INR 900 crores we have borrowed. And it currently constitutes around 23% of the total borrowings as of now, total outstanding from NHB is around 23% of the borrowings, that is one point.

And why we raised NCD, because we find that during the end of the year, there is a lot of demand for NCDs from the market. So that time, we are getting high rates. So we thought it, let us span it out throughout -- over the year. As a prudent decision, we have taken this, which was later borrowed throughout the year to get NCD at cheaper rate. And commercial paper is -- we are at what we were 1 year ago, I think commercial paper has not come down.

It is mostly a cost management tool. And whatever commercial paper we have borrowed, it is backed by bank borrowings on the way in limits. So we feel that at that date, commercial papers are ruling low than what bank has to offer. So we decided to go for the commercial paper. When they mature, if we find, it is prudent to use bank borrowings to liquidate that, we'll liquidate it.

Abhijit Tibrewal: And sir, on the margins?

Amitabh Chatterjee: Margins, see now around 72% of -- we have raised the rate of interest twice in this nine-month period. And 72% of our book is yet to be repriced, and it is going to happen in the next three to six months' time. So, I think we have already bottomed out as far as margin is concerned. Now what we foresee that going forward, our NIM and spread should increase because a major portion of the book will be repriced at higher rate.

Abhijit Tibrewal: What -- sir, I mean, by how much have we increased our lending rate in these nine months since repo rate hikes have started?

Amitabh Chatterjee: We have increased it at 145 basis points.

Abhijit Tibrewal: 145 bps already, great sir. And just one last question. Last quarter, you had guided for about, I think 12 to 14 basis points of credit cost, given that we have already seen the first nine months of the year. Is there a reason to believe that credit costs this year could be actually lower than that 12 to 14 basis points that you had guided?

Amitabh Chatterjee: See, our incremental credit cost during this year was 0.06%. And going forward, our credit cost will remain in that range only, our incremental credit cost, because our book is -- our asset quality is going to be stable in the coming quarters.

Moderator: Next question is from the line of Dhaval from DSP.

Dhaval: Sir, first question, just to sort of complete the point on margins. So you talked about that the spreads should have bottomed out. I just wanted to understand this repricing, what's the reason for the delay? Like, why do customers take -- like the reset rate takes time for these customers. You said that it will take another 3 to 6 months, so just to understand that part. And do you intend to take further price hike or this is basically the peak level where you are at this point of time?

Amitabh Chatterjee: See, our -- we are following a method of annual reset. So all our loan books at the date of their disbursement, they get reset in the same date in the next year. So that's why I told it will take around three to six months to get the major portion of the books reset at a higher rate of interest. But our borrowings get reset at T+2 days some borrowing, some borrowings get reset at quarterly intervals. So this is the reason for the margin compression.

And as far as rate of interest, peaking of rate of interest is concerned, I think now that inflation is almost controlled, and growth is the -- now government is thinking about growth, so we do not foresee a major jump in hike in rate of interest in the coming future.

Dhaval: Understood. And sir, just to sort of complete the point on rate of interest. So if I look at from the lows that you had in 4Q '22, the cost of funds were 5.56% at that point of time. Today, they are about 6.63%, so there is a 107 basis point increase till December. How much more increase do you see from the current level, let's say, in the next 6 months based on the current rate environment? Any colour around that? Just trying to think the 135 bps, would it be adequate enough to offset the impact eventually?

Amitabh Chatterjee: So I think we can expect another 20 bps increase in the coming days, max to max around 20 bps increase. And at every 15 days, we have an ALCO meeting within our company, and we review what is the position. And if required to get the required marginal spread, we may go for another hike in the rate of interest.

Dhaval: So that's very clear. Sir, the other question is on the loan side. So you said that you maintain the 18% to 20% disbursement guidance that we gave in the previous quarter. Just in terms of the ask, so right now, we are about 15-odd percent disbursement growth for the first nine months.

I mean, in terms of ask rate, that would translate to about like close to 24-odd percent growth in the fourth quarter on a Q-o-Q basis and in absolute terms about INR 3,350-odd crores. So just - I mean, I just wanted to get your thoughts around it. I mean, what is the kind of growth do you expect for the full year on disbursement?

Amitabh Chatterjee: See, generally fourth quarter is better than third quarter and third quarter is better than second quarter. It is a trend which is followed over the years. So Q4 also, we are expecting a good growth in numbers. On the conservative side, we are maintaining a 20%, but we may end up in a higher growth.

Dhaval: Did you mean on the loan side?

Amitabh Chatterjee: Yes. Book side as well as disbursement side.

Dhaval: Sir, just one last data keeping question, relating to provisions. Could you give the stock of specific plus general plus restructured provision? Last quarter, that number was close to INR 280 crores. Where are we currently?

Amitabh Chatterjee: No, restructured provision, again, RBI restructuring, in second phase, we are around INR 67 crores, we are holding as an additional provision as per regulatory norms. Other than that, we are holding around INR 221 crores on a total book.

Moderator: Next question is from the line of Shreepal Doshi from Equirus Securities. Shreepal, we are unable to hear you. May I request you to unmute your line please.

Shreepal Doshi: Sir, just wanted to understand what are the current card rates that we are offering to our customers?

Amitabh Chatterjee: Card rate currently what we are offering is 9.6%, and new customers onboarded, we are offering 25 bps concession.

Shreepal Doshi: And sir, so 20 basis points, so we would be giving them loans at 9.4%?

Amitabh Chatterjee: Yes, that is to the prime customers.

Shreepal Doshi: Prime customers, okay. And the higher range would be?

Amitabh Chatterjee: It depends upon the risk rating. And on an average, we find it should be around 10%.

Shreepal Doshi: Sir, just one other question was on this yield calculation side. So when we calculate it on the basis of average AUM, or average gross loans, and the reported yields that the company gives, there's a constant difference which is increasing. So just want to understand the calculated yield side of the things that you guys work out with?

Amitabh Chatterjee: Joishy ji, could you answer this?

Prashanth Joishy: Yes. Shreepal ji, the interest calculation yield is on the basis of each loan what is its earning and the interest earned on the each loan for nine months. So because the rate of interest will depend upon each loan, it depends upon the credit scoring, risk factors and all these things, even though the bank rate was 7.6% or anything, the end up rate will be a bit higher as of now. So that is why the yield what we are calculating on the straight line method and on the loan-wise method differs with a gap of around 15 to 20 bps.

Shreepal Doshi: So you are doing it on advances, gross advances or net advances, like...

Prashanth Joishy: Gross advances only. This is what we are earning on the loan amount what we have granted.

Shreepal Doshi: And sir, with respect to NIM, during the quarter, we did a decent job there. So what is it that we work with respect to liquidity? We brought that down in the balance sheet or what is that we did differently that we were able to manage the NIMs so well, while the spreads have come down below 2.4%, which we've been guiding that will we be able to defend?

Prashanth Joishy: See, the NIM is totally dependent upon the borrowing costs and the lending cost, as I explained earlier. With that rate being firming up, 6.25% is the repo rate now and another 25 bps also hike towards the end, the lending may end up at 6.5%. Factoring this and taking into consideration the overall revision what we have done and the annual reset of the existing book and the incremental lending what we proposed in Q4, put together is going to give an anticipated NIM, which is higher than the present one. So virtually, we are at the bottom of the reverse bell curve. Whatever is going to happen going forward will be an upward trajectory only.

Shreepal Doshi: Sir, one last question was with respect to the provisions. So if we look at the provision coverage ratio on Stage 3, it has been quite volatile over the last say, 2, 3 quarters. Like earlier it was 53%, then it came down to 43%, then again, this quarter it is up to 50%. So what is the thought process there? What is it that we're trying to maintain here?

Prashanth Joishy: Actually, we migrated from the IRAC to the Ind-AS concept as per the regulatory guidelines from Q2 onwards. So going forward, we have to maintain the provisioning as per the Ind-AS or ECL model, whereas the standard assets also requires the provisioning at the rate of delinquency of SMA-0, 1 and 2. So because of that reason, in the IRAC, you may have to make the provision at 0.25% plus 0.40%, whereas if you factor that into percentage, the provision requirement may come up to actually 0.78% to 0.98% and 1.10%.

Because of that reason, the provisioning even for standard assets, ensuring that the NPA will not move, the provision coverage ratio will be going up because of the ECL model. That is why what you are seeing the volatile, it has come down and it is going up now. And going forward, any incremental lending, which is of standard nature, demands more provisioning and provision coverage ratio also will improve going forward.

Shreepal Doshi: But your credit cost guidance remains intact as what you've guided, right, irrespective of these changes?

Prashanth Joishy: Absolutely.

Moderator: Next question is from the line of Ankush Agrawal from Surge Capital.

Ankush Agrawal: So my first question was on the 72% of the book that you said is yet to be repriced, what is the delta on the yield that you can expect on this book?

Prashanth Joishy: See, the main thing is what the reset is going to take place on an annual basis. That means that these loans are holding the rates what it was granted to them at the time of lending. If I say January lending of last year, the bank rate was somewhere around 8.25% and discounted rate what is given to the class A lenders, borrower, is around 7.75%. Now this loan is getting to reset to the card rate, which is going to be 9.60%.

So that means there is going to be an impact to the positive side in the yield by nearly 2%. This is the delta impact and the revision that will happen. That's why 72% is going to get repriced over a period of Q4, next Q1 and Q2. So this is presently 1.9%; going further, it will come down because June, we have revised, so that means Q1, the impact will be somewhere around 1.5%, and when we come to the Q2, it will be around 0.75%.

Ankush Agrawal: So it is like it will decrease from 2% to about 0.75% quarterly. And in a down trending interest rate environment, this reset would again follow the annual one, right, it won't accelerate?

Prashanth Joishy: Sorry, I think you were not clear.

- Ankush Agrawal:** So like in a downward interest rate environment, I believe we would be on the gaining part of it because same thing will happen that the annual reset would happen, and we would be having a higher yield loan because it would be again a 1 year lag by the time that the yield gets repriced to a lower level.
- Amitabh Chatterjee:** That is exactly what we have told. When there is a downward revision in rate of interest, we stand to benefit immediately on that.
- Ankush Agrawal:** And sir, is there a possibility that in the case of any situation, like if you want to reprice the book in between, is there any understanding with the clients that in a situation like that, we can do it?
- Amitabh Chatterjee:** That clause is always there in the agreement. But we seldom use it because we do not want to lose our good customers.
- Ankush Agrawal:** But we do have an option there?
- Amitabh Chatterjee:** Yes. We are having that option.
- Ankush Agrawal:** And lastly, sir, on the capital raise, any time line or any thoughts like if you're looking to do it because I think we are approaching that 8x debt to equity that we have always kind of maintained as a hurdle. And if you say that you can do at 20%, so probably Q1, we would be needing some capital. So any thoughts on that?
- Amitabh Chatterjee:** See, every year, the position is reviewed by the Board with regard to capital position and the projected profitability and other things. We are already having enabling clause. We may raise the capital in coming 2 to 3 quarters, if required.
- Ankush Agrawal:** Nothing has been decided as of now?
- Amitabh Chatterjee:** No, no. As of now, nothing has been decided.
- Moderator:** Next question is from the line of Shweta Daptardar from Elara Capital.
- Shweta Daptardar:** Couple of questions. Sir, you mentioned that as against the 20 bps spike, which you're anticipating in cost of funds, you would see somewhat asset repricing going forward? But at the same time, given that your card rate currently stands at 9.6%, so how much incrementally you see you have that leeway to increase this rate ahead?
- Amitabh Chatterjee:** See, down there, increasing rate of interest, we decide certain factors, what the competition is offering to our customers and what is the targeted NIM and spread we hope we give to the investors as a reference point. All these things are taken into consideration. Book growth is there, AUM is there, everything. Then we can also raise the rate of interest at any point of time. So maybe we may increase another 25 bps to 30 bps, if required so.

Shweta Daptardar: Okay. So against this backdrop, and you also mentioned in the previous question, that your disbursement run rate of Q4 is always better than Q3, but the momentum definitely has come down. So any slowdown or sluggishness in disbursements will be observed because of the higher rates that we'll come to see going forward?

Amitabh Chatterjee: No. See, while it depends upon the affordability factor, whether higher -- whether customers are ready to take that higher rate or not. Now the property prices are shooting up. Rental incomes are also going up. And what is the surplus income that customers will be -- the income levels are going on. And depending upon the surplus level available to the customer, I think they can take another 25 bps to 50 bps hike.

Shweta Daptardar: Sir, one last question. Is there anything on the audit front that is going on internally or from the regulator front? Any observations or anything that is pending? Also internally, have you changed your audit policy or some reviews which have -- wherein the frequency has increased now? Anything on that front, if you can give some color?

Amitabh Chatterjee: See, our audit policy is drafted in line with the RBI audit policy. Apart from that, internally, we are auditing our branches once in a quarter for AHLC's and other branches, big branches. For top 20 branches we have introduced a system of concurrent audit. So if anything is noted, the corrective measures can be taken at an earliest date. So, these all changes we have brought in.

And apart from that, we are also imparting trainings and other inputs to our staff who are working in the field to be more vigilant and to have more due diligence. And as regards to the regulatory audit, I think we have not heard anything so far. We have not been intimated. And we feel as such at present, there is no trigger to have such audit.

Moderator: Next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, one question is on your disbursement rate. So obviously, if you look at it Y-o-Y or even sequentially, while there is some growth, but Y-o-Y, it's been flat. So what are the trends that you are seeing amongst your customer base, given that in the last 9 months, 10 months, we have seen almost a 200 basis point increase? So if you can throw some light on how your customers are taking this interest rate hike and how it starts affecting their purchase decision and financing decision?

Amitabh Chatterjee: See, customers so far, have not reacted adversely to the whatever hike of rate interest we have passed on. Our BT are under the controllable level, and people have accepted this rate of interest hike. And we do not foresee that any slowdown in disbursement or retaining the book is a concern with the current rate of interest.

Sarvesh Gupta: And the 78% of your book, it is yet to be repriced. So what is this annual reset date, number one? And what can be the reaction once your customer get this sort of a onetime hike of almost 2-odd percent, so what is the expected sort of reaction from the customers given this because

they would want to sort of shift to other lenders for getting better rates or something like that when they see such a steep hike in one go?

Amitabh Chatterjee: See, first of all, that 72% of our book is yet to be repriced. That is one thing. And if they think of going to new banks or some banks, there also they will face a similar rate of interest because whatever bank they go, they will be getting that lending at the current rate. So it is not a problem. I think we have been able to control our BT, balance transfer. And we do not foresee as a challenge to our disbursement as well as book growth.

Moderator: Next question is on the line of Dhaval from DSP Mutual Fund.

Dhaval: Just a couple of follow-ups. One is on the new MD and CEO appointment. Any time line around it? I mean, could you just update on that, that would be very useful.

Amitabh Chatterjee: See, the person who has been selected is expected to join in this financial year. So no date has been so far finalized.

Dhaval Gada: Okay. And sir, the other question is relating to the restructured book. So I understand bulk of the restructured book was supposed to come out of moratorium in the last few months. Could you just update us on the behavior of the restructured book? How many percentage are paying regular, or some more data around that would be useful. And lastly, the data keeping question on gross Stage 2 asset. What's the number as of December 31st, and the provisioning on Stage 2 assets?

Amitabh Chatterjee: See. As far as the restructured book is concerned, that repayment has not yet started. It is going to start in a staggered manner. But since we have formed a team and that is following up of the restructured accounts, so though the repayments have not started, but in 30% of those accounts, we have started receiving the repayments.

And in some, accounts are getting closed also. So going forward, I think we will be handling this restructured book in an efficient manner. And against that, we are holding around INR 67 crores provision.

Prashanth Joishy: Regarding the Stage 2 accounts, the amount is the same as INR 1,000 crores. It remained same in Q1, Q2 and Q3. And we had more in last quarter also, restructured accounts have moved to Stage 2. So with INR 700 crores of restructured accounts put together, INR 1,700 crores is there in Stage 2 against which the provision held in the books is around INR 48 crores.

Dhaval Gada: Sorry, what is the provision number you said? Sorry, I missed that.

Amitabh Chatterjee: Provision is INR 48 crores. This is excluding the provision what we held under RBI direction of INR 57 crores.

Dhaval Gada: So just to be clear, on the INR 1,000 crore, you have INR 48 crores. On the INR 700 crores, you have INR 67 crores.

Amitabh Chatterjee: Yes, correct.

Moderator: Next question is from Shreepal Doshi from Equirus Securities.

Shreepal Doshi: Sir, actually, my questions have been answered. It was with respect to the new CEO, which you just answered. So thank you.

Moderator: Next question is from Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: Just wanted to know the number of loan accounts that we have underwritten in this quarter versus 2Q? That's the first question, sir. The second question is, is there a plan in place, will the parent be selling off certain amount of stake in Can Fin Homes? If yes, what's the plan or what has been the Board's discussion around it?

And the third question is, what would be the top 50 branches amounting to the total of book, sir?
What proportion of book is coming from the top 50 branches?

Amitabh Chatterjee: See, as regard the new sanctions, what you asked, we had new approvals of around close to INR 2,600 crores during this quarter.

Shubhranshu Mishra: No, sir, not the amount, sir. I'm asking about the loan contract sir, volume -- the number of loan contracts?

Amitabh Chatterjee: He wants sanction numbers, total sanction amount. It is around INR 2,400 crores.

Shubhranshu Mishra: Sir, I am asking for the number of loan accounts. This is the value, sir. How many loan accounts have we disbursed, sir?

Amitabh Chatterjee: Around 12,000.

Shubhranshu Mishra: And what was this number last quarter, sir?

Amitabh Chatterjee: It was around 10,500 you can say.

Shubhranshu Mishra: And the rest of the two questions that I asked, sir, the stake sale by parent and top 50 branches as a proportion of your AUM, sir?

Amitabh Chatterjee: I think at present, there is no talks about stake sale by the parent. There is no discussion in it. And I think Canara Bank is making adequate profit and they have got good capital adequacy. So what we feel from our end at Can Fin, there is no reason for a stake sale at present. And as regard to this top 50 branches, it will be somewhere around 40% of the total outstanding.

- Shubhranshu Mishra:** Of the total book, sir?
- Amitabh Chatterjee:** Total book.
- Shubhranshu Mishra:** And the same proportion of disbursements, sir, top 50 would accrue to how much percent of the disbursement, sir?
- Amitabh Chatterjee:** Top 50, I think it will be to the extent of that only.
- Shubhranshu Mishra:** 40% of disbursement well, sir?
- Amitabh Chatterjee:** Yes. Around -- not 40%, around 35%, you can tell.
- Moderator:** Next question is from the line of Jigar Jani from Nuvama Wealth.
- Jigar Jani:** So firstly, on your guidance, would you be maintaining similar guidance of 18% to 20% loan growth for FY '24? And on NIM as well, we generally are guiding about 3%, maybe you said about 2.4% spreads in the past. Do you think in FY '24, once you have majority of the reset done, we will be coming back to at least 2.4% or above spreads for FY '24 as you told? That is my first question.
- The second question I have is, in your presentation, if you look at the Slide 12. On September '22, cost of funds is about 6.19%. But if you look at the pie chart wherein you are giving the borrowing mix at the bottom, the cost of funds for September '22 is 5.57%. So, could you just highlight why there is a difference there? And thirdly, I think we have reduced the number of branches by about five branches when compared to Q-on-Q. So any update on that, why there has been a reduction in branch count?
- Amitabh Chatterjee:** So branches, we have opened five branches during this financial year. And we are going to open around five to seven branches every year. And as regards the projections for the next financial year, this NIM and spread, our guidance will be around 3.5% NIM and 2.4% spread.
- Jigar Jani:** And sir, on growth?
- Amitabh Chatterjee:** Growth, it will be around 20%, book growth.
- Jigar Jani:** Right, sir. And on the cost of funds difference?
- Prashanth Joishy:** Yes. Cost of funds, what is mentioned in the funding basket is 5.57% is YTD, whereas 6.19% what has been shown is incremental for the quarter.
- Jigar Jani:** And sir, one more query. Just structurally, what we have seen is your incremental housing loan ticket size that you mentioned in your PPT, that has been going up from Q1 to Q3. So Q1, it was INR 21 lakhs and now it is INR 24 lakhs. So is it that we are structurally targeting more higher

ticket sizes or it is just a factor of prices going up and essentially your loan amount effectively going up? What is the LTV increase? What is driving that increase?

Amitabh Chatterjee: It is a combination of both because that all those big branches, we are headed by experienced and senior level persons. We are encouraging them to give a higher ticket size loan. And in Tier 2, Tier 3 cities, we are focusing on more on affordable sector.

Jigar Jani: But there is no LTV increases associated with this?

Amitabh Chatterjee: No. LTV is the same. We have not changed our any policy with regard to LTV. It is same as it was before.

Moderator: Next question is from the line of Ashwini Agarwal from Edelweiss Mutual Fund.

Ashwini Agarwal: Just some question on BT out and BT in. If we see in the last one year, the interest rates have increased by roughly 190 basis points. And in last three to four months, the increase has been roughly 85 basis points. In the last three months increase, the banks have only passed on roughly 20, 25 basis points. The home loans, which were up late 8.2%, 8.3% has gone up to 8.5%. They have not gone up to 9.3% or somewhat. So for your customers, when the rates increased by 2%, do you think that they will not move out because the banks are currently giving loan at 8.5%?

Amitabh Chatterjee: Correct. See, whatever that has been in the public domain about rate of interest, it is for the prime customers. But when a customer reaches any financial institution, rate terms are believed to be based on his risk rating and his income levels and various other risk factors, and every bank and every financial institution have their own risk-rating metrics.

So though it appears at 2%, but I think that is not going to harm us in any way. And so far, we have not faced anything. And our BT in and out is, we have controlled it to about INR 100 crores per quarter. Two years back, it was INR 300 crores when our rate of interest was much higher. So we have taken a conscious decision to lower our rate of interest during last 2 to 3 years. And now we have controlled that BT out.

Ashwini Agarwal: So it is quite possible that you may not pass the entire 200 basis point hike to the customers and to retain them, the hike may be lower. You will decide that at that point of time, right?

Amitabh Chatterjee: See, as regard to passing of interest rate, it depends on two things, what is the rate prevailing at that point of time and how the risk rating of customers are moved during that one year. So if a customer has moved from a higher bucket to lower risk rate bucket, his rate of interest will automatically come down. Similarly, if a low risk customer has moved out to a high risk or medium risk bucket, then the rate of interest will go up.

Ashwini Agarwal: Okay. So it is not an automatic reset. It happens with -- after a discussion between the two parties, right?

Amitabh Chatterjee: No, no. It is an automatic reset. Before reset, we send the message to the customer.

Ashwini Agarwal: And sir, what is the expected NIM next year, as you said? I didn't get that number exactly.

Amitabh Chatterjee: So expected NIM next year will be around 3.5%.

Ashwini Agarwal: Okay. 3.5%, that's a good number. And similarly, when we come to the new CEO, it has -- there has been quite a lot of delay in hiring the new CEO. So what are the chances that the current person would join in and there would be no hiccups later on?

Amitabh Chatterjee: I cannot comment on this. See, this is a process and it is a listed entity. We have to follow certain norms. We have to find a suitable person to head this institution as there are many stakeholders. So I think that has taken time. And a person who selected, he or she needs some time because he must be working somewhere, some period is there. So taking into account, I think it is not a delay. It is a usual thing which happens.

Moderator: Next question is from the line of Jegadees Sharma, individual investor.

Jegadees Sharma: Sir, what is the borrowing cost which you just mentioned?

Amitabh Chatterjee: Sir, our borrowing cost is now 6.63%.

Jegadees Sharma: 6.6%?

Amitabh Chatterjee: 6.63%.

Jegadees Sharma: Okay, 6-3, okay, okay. So total borrowing, sir?

Amitabh Chatterjee: 6.25%.

Jegadees Sharma: 6.25%. Okay. In terms of amount, sir?

Amitabh Chatterjee: Pardon?

Jegadees Sharma: Like total amount, like what is the total amount?

Amitabh Chatterjee: Total amount borrowed is INR 27,800 crores.

Jegadees Sharma: INR 27,800 crores, okay.

Moderator: Next question is from the line of Mahek Talati from Yellow Jersey Investment.

Mahek Talati: My question was regarding how much of our book is currently from Bangalore or Karnataka?

Amitabh Chatterjee: From Karnataka, if you say, it will be around 20% to 22%.

- Mahek Talati:** And from Bengaluru?
- Amitabh Chatterjee:** Bengaluru, it will be around, say, 17%.
- Mahek Talati:** So, which are the other markets which we are currently focusing on where we see good growth in terms of disbursement except for this Bangalore market?
- Amitabh Chatterjee:** See, Telangana is there. Then also we are getting a good business from Tamil Nadu also. Then we want to increase our business in Maharashtra, Rajasthan and Gujarat, these three states.
- Mahek Talati:** So how many new branches are we planning to open in these new markets of Maharashtra, Gujarat and Rajasthan in order to increase our focus there?
- Amitabh Chatterjee:** See, in coming year, we are going to open may be around two to three branches in these three states. And as of now, we are having branches in all the major centers in these states.
- Mahek Talati:** So what is any target to reach, like how many percent of we want -- we are targeting from new markets of Maharashtra, Rajasthan and Gujarat? Any target, which we have shared?
- Amitabh Chatterjee:** See, we want to increase outstanding in Maharashtra, Rajasthan and Gujarat to around 30% in the coming year.
- Mahek Talati:** And sir, just might be a repeated question. How much rate hikes have we taken in this quarter?
- Amitabh Chatterjee:** This quarter means last quarter or this current quarter?
- Mahek Talati:** This -- last quarter, in Q3.
- Amitabh Chatterjee:** Q3, we have taken a 50 basis point increase. And this quarter, we have increased around 35 basis points.
- Moderator:** Next question is from Ankush Agrawal from Surge Capital.
- Ankush Agrawal:** Sir, firstly, when you say that selected CEO is expected to join by the end of financial year, so do you think that the person is already selected and the proceedings are already complete and is yet to announce?
- Amitabh Chatterjee:** Pardon, I think, you are not clear, I think some...
- Ankush Agrawal:** What I mean, that you said that the selected person would be joining by the end of financial year. So, do you mean that the person has already been selected and you're just waiting for him to join?
- Amitabh Chatterjee:** Yes, yes. The person has been already selected and we are waiting for him to join.
- Ankush Agrawal:** And would it be possible for you to share some more details about the person?

- Amitabh Chatterjee:** See, he is from the industry and he's an experienced person.
- Ankush Agrawal:** Secondly, sir, just a clarification on the branch count. So the third quarter slide shows that we have 187 branches. Is it a misprint or like we have closed branches?
- Amitabh Chatterjee:** No. We have not closed any of our branches. We are now having satellite offices and branches put together, we are around 205 now.
- Ankush Agrawal:** 192 plus 12 -- 13 satellite branches.
- Amitabh Chatterjee:** 13 satellite.
- Ankush Agrawal:** So, there's a misprint in the presentation of this call.
- Amitabh Chatterjee:** Thank you. We will get it corrected.
- Moderator:** Next question is from the line of Gaurav Jani from Prabhudas Lilladher.
- Gaurav Jani:** Firstly, if you could just quantify the investment income or the treasury income in Q3?
- Amitabh Chatterjee:** Sir, you were not clear, sir. Can you repeat that?
- Gaurav Jani:** What I was asking is, can you quantify the investment or the treasury income in Q3, please?
- Amitabh Chatterjee:** Sir, we will get it. Meanwhile, we can take another question.
- Gaurav Jani:** Sir, just to follow-up also on that, so on a 9-month basis, we reported a margin of 3.46% versus 3.44% in the last 9 months. So if you could strip off the treasury income and then please lay out the margins. So that's on the treasury.
- Secondly, you mentioned that about 28% of the loan book has already been repriced with 72% remaining. What would this number be on the borrowing side as to what proportion of borrowings have already been repriced?
- Amitabh Chatterjee:** Borrowings...
- Prashanth Joishy:** The borrowings are linked to 3 factors: one is T-bill linked; second is repo rate; third is MCLR; whereas T-bill stretch is around 4%, which is getting reset as and when the T-bill rate is changed. And most of the borrowings are linked to the three-month T-bill, so it is getting reset at the end of every anniversary quarter. Whereas repo rate also, we have gone with the anniversary concept, that means as and when repo changes, it will not change the rate. But on the anniversary quarter, it will get changed. That means there also we have a leverage of some time to get calculated and adjust.

And MCLR also is on the quarterly MCLR basis. It will get changed only at the end of the quarter. That means virtually, the borrowing book is getting repriced at the end of anniversary quarter. And we will be knowing the applicable rate of interest while we can, so that we can do the back calculation, assessing the impact on the NIM and spread and reverse the lending activity as such.

So as to what is explained, I want to just add some more things. During this financial year, 2.25% is the increase in the borrowing cost. And because of the lag effect as well as this anniversary reset, we have passed on this load to our customer to the extent of 1.6% only during this financial year, 135 -- 1.35 bps we have passed on.

That means, if we compare to the other banks, their lending rate as of 31st of March to 31st of December, what the hike has taken place, and what is our lending rate from 31st of March to 31st of December, there is a huge gap.

So this is only a clarification given to the earlier questions also that whether you have an ability to increase further, to take care of your NIM as well, yes, there is a scope because we are still -- incrementally, we are there when the increase has been taken place. The banks have increased on a phased manner month-on-month, but we have not done like that, right? So that is why we have a scope to see that. NIM and spread is not compromised this quarter as well as coming years. I hope I answered what you want?

Gaurav Jani: Yes, I appreciate your input, sir. What I was only trying to ask is of the INR 27,800 crores of borrowings, what proportion has already been repriced?

Amitabh Chatterjee: That is 28%. 72% is borrowing.

Prashanth Joishy: Overall borrowing book is linked to T-bill, MCLR as well as the repo, but for the NHB, if you want to see exactly, NHB INR 6,500 crores is there which has a separate rate. CP & NCD's of INR 6,000 crores are issued at a fixed rate of interest. So out of INR 27,000 crores, INR 12,000 crores is out, the remaining INR 15,000 crores has already got repriced.

Gaurav Jani: Really helpful. Just a slightly different way of asking you in terms of margin guidance versus the 20% AUM growth for FY '24, what is the likely NII growth that we would look at?

Prashanth Joishy: NII growth what happens is, what we have told, the NIM and spread is maintained at the guidance of 2.4% and around 3-ish. Keeping that as the base, we are doing the reworking. On the same lines, what you can see on NIM, the same will be continued. When NIM is derived, the book loan is derived, you can do the reversal calculation and divide what will be the NII. So our calculation is on the basis of guidance, 2.4% of spread and around 3-ish. That is 3 plus is going to be NIM.

Gaurav Jani: Sir, no, what I was just trying to understand that, sir, whether the NII growth would be more than 20% or not?

Prashanth Joishy: It will be, by default.

Gaurav Jani: Please if you could give me the data points I had asked you?

Prashanth Joishy: Your earlier question regarding the treasury income. The investments are held for the purpose of SLR as well as the LCR purpose. And the LCR purpose, we have invested to the extent of around INR 1,200 crores, which was earlier lesser than that one. So current year, for the nine months, the interest earned on investment, what we call as the treasury is around INR 79 crores. The same period last year, it was around INR 13 crores.

Moderator: Next question is from the line of Jyoti Khatri from Arihant Capital.

Jyoti Khatri: I just missed on your credit cost guidance for the next fiscal. What's the number that you put up?

Amitabh Chatterjee: Credit cost is around 0.06%. And going forward, it will be around the same range.

Jyoti Khatri: And sorry for being repetitive, again. On the margin side, given all the inputs that you have given so far, don't you think that margins of 3.5% and spread of 2.4% is still very conservative. You can out beat that by a very big margin or that's not the case?

Amitabh Chatterjee: Just to add to what we said, our book is almost totally retail. So rate of interest is a very sensitive matter as we deal with the retail customers. And we have to see what the other banks and other HFCs are offering. So based on this, we have given a guidance of 3.5% in the near future.

Jyoti Khatri: And what outstanding provisions that you're holding total provision of INR 1,000 crores restructured book, that is INR 67 crores plus INR 48 crores?

Amitabh Chatterjee: Restructured book is only INR 701 crores, ma'am. Provision is -- restructure book is to the extent of 10%. RBI guidance is clear. We have to hold 10% of the restructured book as a provision, which is over and above the provisioning what we are holding in the book, in the normal course, either as per IRAC or ECL. So that is what we have told. We have INR 67 crores of additional provisioning, which is as per the RBI guidelines.

And as per the ECL, these loan accounts are classified as Stage 2, even though they are Stage 1. And against this one, we are holding a provision of INR 48 crores. So restructured, Stage 2 is having INR 48 crores; Stage 1 is also having the provision. Put together, the provision held in the books of the company as on date stands at INR 290 crores.

Moderator: Next question is from Rohan from Multi-Act.

Rohan: Sir, my question was on the annual reset that comes up. Is the default reset option, a tenure increase or an EMI increase?

Amitabh Chatterjee: It is a combination of both. Wherever possible, we give for a tenure increase. And wherever the scope is not there as per our guidelines, we give for an EMI increase. And it is automatic.

Rohan: Sir, but based on -- I mean, the scope being there or not being there, the 72% of the book, which is going to come up for annual reset, a large part of it, there would be scope for tenure increase or not?

Amitabh Chatterjee: Going by the previous experience, yes, last quarter, there will be a tenure increase.

Rohan: Sir, and in terms of disbursements in Q4 to have the 20% Y-o-Y run rate being maintained, we'll require like a INR 3,000 crore plus disbursement. So you are seeing that kind of pipeline, sir?

Amitabh Chatterjee: Yes, sir. We are targeting on those lines also, and we are working towards that one.

Moderator: Next question is from the line of Rahul Maheshwary from Ambit Asset Management.

Rahul Maheshwary: I just had two questions. One, can you give what is the kind of rejection rate that is taking place. And looking at, as you mentioned that you want to enter into new geographies and go into Rajasthan and Maharashtra, I just wondered why, as a strategy, we are just restricted with four to five branches opening.

Does it mean that there is a very much higher scope in terms of the branches in terms of the loan per branch and the employee per branch? And if that is not the case, what is the maturity limit where you expect that per branch loan disbursement can go to? Because the rest of the peers when we look at even the large banks or the NBFCs, the kind of branch expansion is phenomenally higher. Why we are just stick with our five to six branches?

Amitabh Chatterjee: See, we have got around 13 satellite offices, which we are planning to upgrade it to be a full fledged branch because those were opened some 5, 6 years ago. Now we see that the link branch to which they are linked, they are able to source from their own side. So these branches we'll be upgrading into full-fledged branches.

Apart from that, we are targeting around 5 to 7 branches every year.

And second thing, we are going for an IT overhaul where we find we leverage technology to bring in more customers. So that is one thing. And also as regard that Maharashtra and other states, we feel that the branches which they are there, they are in the major cities, where we will be increasing our efforts to increase the business there.

Rahul Maheshwary: So just to ask, current INR 147 crores per branch, the business, which has been doing, how much more lever per branch can go up to?

Amitabh Chatterjee: See, in the near future, we are thinking of increasing it to INR 160 crores. So apart from that, in coming days, we see around INR 200 crores per branch.

Rahul Maheshwary: And this is why you are not very much aggressive of opening the branches because there is still a lot of juice left from the existing branches? Or there is some other reason?

Amitabh Chatterjee: See, we have done the ABC analysis of all our branches. We still feel that around 25% of our branches, they are underperforming. We want to upgrade those branches and make efforts so that these branches also contribute optimally to the loan book growth and disbursement.

Rahul Maheshwary: And in terms of underperforming, what is the benchmark that you are keeping, 25% branches which are underperforming?

Amitabh Chatterjee: These under-processing branches, we are giving around 40% growth, both in disbursement and book growth.

Rahul Maheshwary: And first question, on the rejection rate, what is the rejection rate currently?

Amitabh Chatterjee: Rejection rate is around close to 11%.

Rahul Maheshwary: Sir, this 11% is the moment it has been sanctioned till the disbursement or it's at the point of sourcing, this 11% rejection rate?

Amitabh Chatterjee: At the point of sourcing only. At the point of sourcing where due diligence and other income and other things are being checked. At that point of time, it is getting rejected.

Rahul Maheshwary: But as per industry's benchmark, your rejection rate is quite low. I mean any particular reason, sir?

Amitabh Chatterjee: See, generally, *prima facie*, when you do some checks, that itself we can come to know whether it is doable or not doable. That is at the time of PD itself, we see that whether this customer can be further progressed upon.

Rahul Maheshwary: And sir, you also talked about that you would be doing IT investments, etcetera. So have we -- have any systems on the early warning signals being established? And due to that, you can do a back tested, etcetera, mechanism?

Amitabh Chatterjee: See, we have got certain OTMS reports generated and based on that, we see any early warning signals are there or not. But since the present IT setup is more than 10 years old, so we thought to migrate it to new IT sector, where that book growth can also be taken carry forward.

Rahul Maheshwary: Sir, how much of the spending would be, IT spending, for the next two years?

Amitabh Chatterjee: So it is around seven years project. It will be close to around INR 200 crores.

Rahul Maheshwary: And this will be spread across seven years, you're saying?

Amitabh Chatterjee: Yes.

Rahul Maheshwary: And this, once the IT spending has been done of INR 200 crores, how much loan book capability on overall basis it can handle up to?

Amitabh Chatterjee: We have -- it will be handling around INR 1 lakh crores of business. And it can be further scaled up to 2 lakh crores of business.

Moderator: Next question is from the line of Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: Just wanted to understand the average duration of the liabilities, if you can mention that?

Prashanth Joishy: The borrowings what we borrow from the banks will range from 5 to 10 years, and the average tenures is somewhere around 78 months.

Shubhranshu Mishra: And what was this last quarter, sir?

Prashanth Joishy: What was...?

Shubhranshu Mishra: What was the same number -- average duration of liabilities last quarter, sir?

Prashanth Joishy: The tenure of the borrowings is fixed at the time of documentation only because the sanction letter will contain the tenure. And on the basis of that only, it is matched with the tenure position. And it has been accordingly which has been borrowed. See the NHB borrowings are ranging from 10 to 15 years, bank borrowings for the long term are around 8 to 10 years whereas some short-term borrowings are ranging from 5 to 8 years.

It is the total mix. The average tenure when we call for is around 78 months fixed count. It is on the same line as that of last quarter or before last quarter also it was somewhere in the same range, that is six to seven years is average tenure that is going to come.

Shubhranshu Mishra: Sure, sir. But I was asking about the duration sir, not the tenure. I get the point on tenure, sir. Duration is something different. Maybe I can take it offline. That's fine.

Moderator: The next question is from the line of Bhaskar Basu from Jefferies India.

Bhaskar Basu: I just had one question, I think it's a repetition. Just wanted a clarification around the repricing of the liabilities. It was not really clear. When you say MCLR -- sorry, the repo reset and the T-bill, could you just explain that once again?

Amitabh Chatterjee: See, certain borrowing, we have got different arrangements with different banks. MCLR, some banks reset the MCLR on the date of their changing the MCLR. Some banks, they do at the end of the quarter and some treasury linked borrowings, they reset at T+2 days. So, it is a mix of all. But as you see, you can find out during a quarter, whatever change of rate of interest is there, it gets repriced.

Bhaskar Basu: So I mean it's more or less done in the same quarter itself?

Amitabh Chatterjee: Yes.

Bhaskar Basu: Most of them are short cycle resets.

Amitabh Chatterjee: Yes. By the end of the quarter, everything gets repriced.

Bhaskar Basu: So ballpark speaking, like given that your cost of fund has gone up by about 100 bps, if I look at between 4Q to 3Q and given that 51% of your book is basically bank borrowing, is it a reasonable assumption that 200 bps roughly give and take of the lending rate -- of the interest rate hike has got factored in?

Prashanth Joishy: Yes. Because 23% is of NHB borrowing is there of the total book, which is coming at a contractual rate. NHB rate is somewhat couple of bps, 200 points below the market rate. And then the CP & NCD is there, which is around INR 6,000 crores, which is at a fixed rate of interest. That is around 24%.

So virtually, nearly 47% is almost at a lower rate or a fixed rate. So the only thing is only it is getting repriced and then it is getting repriced every quarter as and when the repo rate changes. So that means it is not reset with Q1, Q2, Q3 and an ongoing basis.

Bhaskar Basu: So incrementally, just to take this to -- so basically, the asset side is yet to kind of reflect the reset -- the hikes which you have taken?

Prashanth Joishy: Yes. The full impact of the recent what is going to happen is not going to appear in the asset side over a period of remaining nine months, whereas the other side has already got impacted.

Moderator: I now hand the conference over to the management for closing comments.

Amitabh Chatterjee: I request our GM madam to offer closing comments.

Shamila: So I hope we have clarified all the questions, I mean answered all the questions. So, as you just said, we're looking for a very good quarter, the JFM quarter, and we've already given our guidance range. So, we are very confident that we will be able to live up to the expectations of one and all. Thank you.

Moderator: Thank you very much. On behalf of Investec Capital Services, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.