"Can Fin Homes Limited

Q2 FY '24 Earnings Conference Call"

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

Moderator: Good afternoon, ladies and gentlemen, and good day, and welcome to the Can Fin Homes Q2 FY '24 Earnings 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 questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator 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. Thank you, and over to you, sir.

Nidhesh Jain: Thank you, Anzo. Good afternoon, everyone. Welcome to the Q2 FY '24 Earnings Call of Can Fin Homes Limited to discuss the financial performance of Can Fin Homes Limited, and to address your queries, we have with us Mr. Suresh S Iyer, MD and CEO, Mr. Ajay Kumar Singh, DMD; Mr. Apurav Agarwal, CFO; Business Head; Mr. Prashanth Joishy, DGM of Can Fin Homes Limited.

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

Suresh Iyer: Yes. Good afternoon, everyone, and thank you for joining us for this Earnings Call. I welcome all of you to the second quarter presentation of - the business performance of Can Fin Homes. Just to give you a brief about the quarterly performance. I'll just take you through a couple of points before we open for questions. The presentation that we have prepared has already been uploaded. I'm sure all of you would have gone through it.

But just to recap a couple of important points. First is on the disbursement front, we have had a sequential growth in terms of disbursement, but in terms of comparison with the first quarter with the second quarter performance of last year, we've had a slight dip. And I guess we had already indicated post our Ambala incident that as a fraud had occurred in the month of July that sentiment is a little low, and it might have felt a little bit of disbursement because we are introducing a lot of steps and controls in the processes to strengthen the process and bring in a lot of internal controls. So that was one thing. But sequentially, the disbursements have grown compared to the Q1 of the current year.

The other thing is that in terms of the disbursements, we had indicated that Can Fin would be looking at slight increase in the ticket size and looking at segments with builder tie-ups. So from that angle, the business, the performance has been a little positive. We have started getting a good result and the inquiry and logins have been quite positive. So in terms of disbursements, while the Q2 has been a little slow compared to what we would have expected.

But going forward, we are quite positive that disbursements will pick up, and we should be able to cover up for some of the shortfall of the Q2 performance. In terms of the collections and recovery, the non-restructured book continues to have a very healthy GNPA and it is in line with what has been there in the March as well as in the June results. The gross NPA, which was 0.55 has only marginally increased to 0.57, which is more of a seasonal impact as regards to the non-restructured book.

However, in terms of the restructured book, the NPA has been there. And as compared to what was initially expected that about 10% of the book would move into NPA from the restructured book. We have about a slightly higher of 14%, which has moved into the NPA in terms of the restructured book. So to cope up with this, the management has also made a slightly higher management overlay in terms of the provisioning.

So an additional INR17.28 crores management overlay has been made during the quarter. And as a result of this, the overall PCR has slightly improved, because from the INR17 crores to management overlay, which is already made in the March of last year, there is an additional INR17.28 crores management overlay totalling to INR 34.28 crores. So this has helped in improving the PCR, including the management overlay to about 63%.

Overall, as you -- the important thing that happened in the last quarter was the event at Ambala wherein the fraud was there. Post the event, the initial disclosure was made to the stock exchanges regarding the event that has happened and the amount of INR38.53 crores was reported. Subsequently, the management has conducted an extensive study of this entire thing, not only at Ambala branch but across all the branches. And it is confirmed once again that it is purely a one-off incident in one of the branches at Ambala and it is not found in any of the other branches.

The final amount also in respect of this fraud has been crystallized at INR 39.67 crores net amount, and for that, the management has made a 100% provision in the current quarter. So that is there. So because of this, the total provision, which has been made during the current quarter tune up to INR 72 crores, which is inclusive of the INR 39.67 crores for the Ambala incident and the INR 17.28 management overlay that has been done over and above the regular provisions that are required as per the ECL.

In terms of the spread and the NIMs, there has been an improvement in both the spread and NIM during the quarter, mainly because of the portfolio which has experienced the last rate hike, which was passed on. So at the beginning of the quarter, there was INR 12,500 crores approximate portfolio where one rate hike was yet to be passed on.

During the second quarter of the year, around INR5,700 crores of book has gone through this or experienced this rate hike, which leaves another INR6,000-odd crores wherein this rate hike is yet to be passed on.

So totally, we have the spread because of this rate hike, the spread has improved and so also has the NIM. So NIM as at the end of the second quarter stands at 3.62%. Going forward, in terms of disbursement, we are confident that the logins and inquiries have been good, so we would be able to catch up a little bit in terms of the shortfall of the second quarter. And compared to the target, we would at least be crossing INR10,000 crores in terms of disbursement during the entire year.

The loan book growth because of this shortfall in disbursement during the second quarter has slightly come down to 16%, but we are hopeful that we should be able to pick up in the second half, which normally is also the better half in terms of the disbursements for the housing industry.

To push that disbursement, we also start for this festive season announced a small scheme for our new customers at a slightly lower rate of interest also. So we are hopeful that business should pick up, and we will be able to improve the disbursements. And we continue to maintain the guidance of spread of 2.5% for the entire year and 3.5% for the year in terms of NIM for the entire year.

So that's in a nutshell performance for the quarter, and the detailed presentation is already shared and put up on the website as well as on the stock exchanges.

So I guess we can now open for questions. Thank you.

Moderator: Thank you very much, sir. The first question is from the line of Manuj Oberoi from Yes Securities. Please go ahead.

Moderator: Mr. Oberoi, Mr. Manoj Oberoi. As the current participant is not answering, we will move on to the next question. That is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: Congrats on good set of numbers, and I wanted to appreciate for the detailed presentation. Sir, the first question was pertaining to the yield. So while as you explained that the repricing has benefited us on the wheel side and incrementally the INR6,000 crores of portfolio, which will get repriced for 35 basis point of rate hike, the last one that you had taken. So is there anything additional other than that, that is benefiting us on the yield side? What -- I also wanted to understand our incremental lending rate that we have.

Suresh Iyer: See, the two points that you have mentioned, one is the rate hike that was passed on. Obviously, in the first quarter, we didn't get much of a benefit of the rate hike because whatever was passed on at the beginning of the year, we had about INR 18,000 crores. And at the end of the first quarter, we had INR12,500 crores. So about INR5,500 crores, which came for a reset during the first quarter of the year where it was for a part of the quarter only. So we didn't get the full impact.

But in the second quarter, that entire INR5,500 crores, we've got the 100% benefit. For the entire 3 months, we've got the benefit. That is the main reason. Same way going forward also the portfolio, which has come for a reset in the second quarter, we have only got part of the benefit as it has come to our books because it would have -- some of it would have come in the month of July, some in the month of August and some in the month of December.

So on that, the entire 3 months, next quarter, we will get. So that is the main reason. And the second reason is the incremental lending rate obviously has slightly gone up because Q1, Q2, normally, the discounts that are offered for the festive season are generally pulled out. So same in our case also, we had done that, but that was also there for the first quarter. So that wouldn't make much of an impact in Q2, but -- so the main reason has only been the rate hike that has been passed down where we have got the full impact of INR5,500 crores during this current quarter.

Second question, as regards to the lending rate, so our lending rates, we have -- I think we have not made any change in the lending rate during the quarter, except for higher ticket size because we were to enter into the APF segment. For the higher ticket size of loans, about INR35 lakhs, where the credit score is above particular cutoff, we have offered a slight discount in the lending rate, and we have lowered our card rate for those kind of customers. So that is now below 9%, whereas for the rest of the customers, it does start from 9.6%.

Shreepal Doshi: Okay. Okay. Sir, just second question was on the GNPA front. So we've seen an increase in our numbers, while I understand some of it would be from the event that happened during the last quarter, and in some of it would be from the slippages from the restructured book, as you highlighted. But I suppose there is still a part portion of our restructured book, which will be coming out of moratorium? Because you had highlighted that in August, a majority of it will come out. And by November, all of it will be out. So how do you see the GNPA moving from here on? And was there any other big slippage during the quarter?

Suresh Iyer: Yes. First of all, there is no impact in the GNPA because of the Ambala fraud because first of all, it is not an asset-related fraud. So there is no bearing. It was purely,, money which was siphoned off, and there was no asset to back it up. it's not an asset-related fraud. That is not part of the INR33,359 crores that is reflected in the asset book.

So this entire thing, if you look at the Page 30 of our presentation, you will see that the major reason for the rise in the gross NPA is because of the restructured book, where we've had a INR64 crores portfolio turning into NPA. Now this INR64.18 crores, which has become an NPA from the restructured book is out of the INR450 crores of restructured book, which has come out of restructuring up to June.

So basically, we had a total book of INR685 crores, where in restructuring was offered out of which INR460 crores has already come out of restructuring up to June 2023. And out of that, INR64 crores has moved into NPA, which is about 14%. And we still have out of this thing about INR210 crores of book, which is yet to now come out of the restructuring in the coming month that is in the Q2 of the current year as well as the month of October and November. So out of this INR210 crores, if you look at the same percentage, there could be some increase in the coming quarters in terms of the gross NPA.

But having said that, I would also like to say that during the last quarter, we also had some recoveries from the regular accounts. So the entire impact will not be present in the coming quarters. But that should probably be the last of the NPA because in terms of the restructured book, the gross NPA levels have almost been the same at 0.55 has just marginally increased to 0.57, which is also a seasonal impact. So that also by March should come down back to the, I guess, 0.55 or something.

Shreepal Doshi: Got it sir, got it.

Moderator: The next question is from the line of Manuj Oberoi from Yes Securities.

Rajiv Mehta: So the first question is on business and disbursement. So sir, are all the operational changes complete as we speak? And would the branches take some time to attune to them? So anything on that if you can highlight?

Suresh Iyer: Sure. So we have mentioned in Page 33 of our presentation, the action taken, wherein most of the changes that we had indicated that is centralized disbursement as well as centralized reconciliation and strengthening of the credit sanctioning, which is the credit risk monitoring department, CRM, and a few other smaller things. But mainly these three have already been implemented.

So the centralized disbursement we have been doing from-- 3rd of October, actually, and it has been going quite well. There is no kind of issue or anything that is being faced.

In terms of the centralized reconciliation also, it is completely something which doesn't affect the branch operation. So that is also not going to have any impact. Same also the case for CRM. So the impact in terms of the business would not be as much. It is only that while we were doing this, we were implementing this. There was a lot of changes in the systems and clarifications and trainings and all that had to be done, which had an impact in terms of the business.

So that having been done, and this process is being implemented -- at least in the respect of these cases it will not impact much. However, we do have a couple of other things which are planned, which is given on Page 34 of our presentation. But I guess it would not have much of an impact going forward because those are the smaller things which will not have an impact in terms of the TAT or in terms of the servicing of the customers and the branches.

Going forward, I guess, it should not impact much in terms of the disbursement because all the trainings and everything that was required was mainly for the central disbursement, which has already been completed.

Rajiv Mehta: And sir, any spike in branch attrition in recent months?

Suresh Iyer: Sorry, branch?

Rajiv Mehta: Attrition in recent months.

Suresh Iyer: No, no. We have not seen any attrition. I mean, it's a regular course that is there not much and there is no any difference in terms of attrition.

Rajiv Mehta: Okay. Sir, the second question is on cost of funds. The cost of fund was flat Q-on-Q. And so if you can spell out the sequential movement in borrowing rates from banks and NCDs, just to understand why the cost was flat on Q-o-Q basis.

Suresh Iyer: See, mainly, if I were to tell you that it's not that it's all the aspects of the borrowings have remained flat. So there have been a couple of MCLR-linked bank term loans, which wherein we've had a small increase. However, on the other side, there have been the commercial paper that we borrowed, I mean, that we raised were at a slightly lower rate.

So overall, if you look at it, the impact has been kind of set up within each other. So while there was some about a couple of MCLRs, so since the repo rate loans that have been raised, which is the majority of the bank borrowings that we have, there since -- there is no change in the external benchmark that is a repo rate. Hence, there is no change in those loans. But a couple of our bank borrowings are linked to MCLR or T-Bill. So there, it's a fluctuation linked to the MCLR or the T-Bill. And that has been offset by the CP.

Same way if you look at it, the last year, we had raised NCDs that are at a higher rate because we had raised it in the month of February where the rates have kind of started going up already. This year, the rate that we are getting are a little on the lower side, although we have not raised any single rupee from the NCD route this year.

So I guess, in terms of the cost, there could be a couple of other MCLR rate loans, which are there, which if the MCLR go up and could go up. So otherwise, we don't see much of an impact.

And if you look at it, our borrowing from NHB has come down during the year because we have already exhausted all our NHB-sanctioned limits in the month of December 2022 itself. And for the current year, we are yet to receive the fresh sanctions from NHB, which normally comes in the month of October, November. Last year, also, it had come in October only. So once that comes, whatever little increase there is there, probably we can offset from a raise, when we raise the NHB refinance because that is one of the cheapest borrowing avenues for us as of the moment.

Rajiv Mehta: Yes. Got it sir.

Moderator: The next question is from the line of Nishant from MLP.

Nishant: Yes, yes. So yes, my question was around like growth and possible balance transfers out. So we've taken -- like we passed on a lot of like yield hikes on to customers like we've had like a very smart and sharp kind of NIM expansion on this. How should I think about growth? Like do you fear this starts to impact prepayment rates and people be out like festive season, people typically have like those processing fee waivers or stamp duty waivers or all that kind of stuff. So how are you thinking about that? Is there a potential for the yields to be kind of negotiated down by customers to kind of preserve growth? And secondly, just if you could talk about, like, say, from a 3-year perspective, what kind of growth ambitions do you have?

Suresh Iyer: Sure. First question, Nishant, is about your -- is the prepayment risk or the -- whether there has been any spike. So actually speaking, compared to the first quarter and the second quarter, the actual -- absolute value of prepayments plus amortization during the quarter has been higher by about INR100 crores, which is not a very large amount. Although it is there, it is witness about INR100 crores. Some of it, obviously, is also because the base itself has gone up over the quarters. But there has been a slight increase in this thing.

Now going forward, with the festive season coming, as you rightly pointed out, a lot of players would be coming in with very good offers for -- at lower rates and all those things. But we have also, as I mentioned earlier, also slightly offered a good rate for some of the customers. And if required, we will also look at offering a good rate to retain good customers. So that will obviously be the thing. And that's why in the beginning itself, while our present NIM is around 3.62% and our spread is also higher at 2.6%. But still, as I mentioned that we would be comfortable with the 2.5% and 3.5% number for the entire year because if required, we will not hesitate to offer a good rate to retain good customers.

Nishant: Sure. Understood. And could you talk about growth as well? And you also alluded to like higher...

Suresh Iyer: I don't -- what is the outlook for the next 3 years or something. So current year plus in the short term, if I have to mention, I would say, as I mentioned earlier, that the whatever shortfall is there in the second quarter, we would probably look at offsetting some of it in the Q3 and Q4 and we have a good, announced spread and margin, and we've had a pleasant surprise in terms of the spread and NIMs. So we would not hedge -- we are now a little more comfortable in offering a good rate to push growth. And that is what has been our indication from the beginning that if we have that buffer, we will definitely use it to push growth.

So we will try to do that and cover up for some of the shortfall of the Q2 performance in the Q3 and Q4. Having said that, for the next 3 years, if you look at it, our growth targets would be somewhere around 20% disbursement growth year-on-year. That would be the kind of target that we would be comfortable with.

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

Ankush Agrawal: Highly appreciate improved disclosure on the presentation. Just clarification from the restructured numbers. So you said INR460 crores came out as of June '23 and INR210 crores is more pending.

Suresh Iyer: Yes, I'll just explain -- so we have about INR680 crores of book, which is -- where in the restructuring has been there. INR450 crores had come out of restructuring in -- up to the month of June, okay? And during the month of July, August, September also, we've had INR216 crores, which has come out of restructuring. However, for the purpose of calculating the NPA, we have taken that portfolio with a one quarter lag, because if the portfolio has come out in the month of August, then even otherwise, even if the customer has not paid a single amount, it will not be classified as an NPA in the month of September.

So for the purpose of clarity and for the purpose of having a fair representation, we have taken the base or the portfolio, which has come out of restructuring up to June and the NPA as on September. That's why NPA of INR64.18 crores on INR460 crores. But if you ask me really how much portfolio has come out of restructuring, then it is INR613.66 crores.

Ankush Agrawal: So technically entire portfolio has come out is just that the 90-day DPD for this INR210 crores or INR216 crores pending, right?

Suresh Iyer: No, INR63.20 crores is yet to come out of restructuring, which is in the month of October and November. And together, this yes, INR676 crores minus INR460 crores, that is about INR216 crores is what is not yet closed -- has not crossed the 90 days. So it's likely to have some impact in the NPA going forward.

Moderator: The next question is from the line of Rohan Advant from Pratt Capital.

Rohan Advant: So my first question is that on the restructured book, we had a provision of INR68 crores. And now in this quarter, we've done a management overlay of INR17 crores. So we have to say, an

INR85 crores provision. Are you confident that this provision would be sufficient for all expected slippages from the restructured book going forward as well?

Suresh Iyer: In fact, I would say that this is -- would be more than sufficient. I'll tell you why, one, because we, of course, have that INR68 crores, which was the mandatory provision required when the accounts were given or offered are restructuring, 10% of the book. So that's why the INR68 crores originally is already available with us.

Over and above that, whatever INR64 crores portfolio has moved into NPA, we have already provided the -- under the normal ECL guidelines. So whatever provision is required as per the ECL, which is for the Stage 3 assets, that has already been computed and provided in the normal ECL calculation. Over and above that, we have the INR17 crores provided in the -- as a management overlay in March, plus the INR17.28 crores provided in this quarter. So that is another INR34.28 crores.

And additionally, as a very prudent measure, the entire non NPA book of restructured pool that is another INR613 crores, which you have seen in our Page 27 of presentation is being considered as Stage 2, even if they are in Stage 1 or Stage 2 or if they have not even come out of restructuring. So even in that count, we have provided on the higher side, considering them at Stage 2, even if they are in Stage 1 or they are in a regular category.

So there has been prudence in terms of provisioning for restructured book on all -- on multiple three or four accounts. So going forward, from the restructured book, we don't expect or foresee any kind of additional requirement that may come.

But as I said, the final thing will emerge in the month of March because the final last -- of this thing is also expected to come out in the month of November. So in Q4, is when they will cross 90 days. So by March, the complete picture will be available, and post that, we can take a call on how much to maintain and how much of this management overlay is available to us.

But having said that if you look at our Page 29 of our presentation, we would like -- our ECL provision requirement itself is only 44%. So the PCR is less. So as a conservative management, we would definitely prefer to have a slightly better PCR. So to that extent, whatever possible, we may continue even if it is not going to affect as a restructuring, but we may still continue because it's -- we would like to have a slightly better PCR.

Rohan Advant: Got it. Sir, and my second question is that in your opening remarks, you said that for this year, you are targeting disbursement of INR10,000 crores. In the first half, we've done INR4,000 crores. So that leaves us with a run rate of INR3,000 crores per quarter for the second half. Are you seeing that kind of traction for a few quarters now, we seem to be around that INR2,000 crores and have unable to really step up that.

Also I understood from your presentation is that you are trying to diversify your sourcing away from DSAs. So would that have some additional growth pressure. So your confidence on the INR10,000 crores disbursement and the traction you are seeing, if you could share there, it will be useful..

Suresh Iyer: Sure, certainly. See, when we say that we want to slightly reduce the reliance on DSA, it is not that we want to reduce the absolute amount or sourcing from the DSA, having it was practically a single sourcing channel, which is available to the company. So we are just trying to kind of spread and have an additional sourcing channel, which is through this builder tie-ups than APF and through this digital sourcing, okay?

So whatever was coming from the DSA pool will continue. We will still have to -- if you -- that also you will see that in terms of the numbers also, we have not seen much of a reduction or a change in terms of the sourcing from the DSA channel. That is also part of our presentation. So what we will do is this APF sourcing and as well as the digital that we are looking at, we will only add to the kind of sourcing that we are looking to have.

Rohan Advant: And are you seeing traction for the INR3,000 crores in terms of the pipeline, the inquiries?

Suresh Iyer: Yes, we are having a good increase. In fact, this APF that we had started somewhere in the month of July -- and July and all, we are getting a good response. And what has happened is our absolute business from that INR25 lakh to INR50 lakh and above INR50 lakh segment has started moving up. Though it's not a very large number to talk about, but it is the number that started to show. And we are hopeful that this will also help us because not only will the business come from that segment and the APF channel but that whatever business we get will also be with a slightly higher ticket size because that INR25 lakh to INR50 lakh and INR50 lakh plus will be higher than the current average ticket size that we are having of INR22 lakhs per HL and INR8 lakhs for NHL.

Moderator: The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: Yes. My question was regarding the INR46 crores NPAs, which you talked about. I mean, can we see this kind of run rate also going forward? Or are you seeing -- do you think they will be moderating in the upcoming quarters?

Suresh Iyer: I mean INR46 crores, I didn't get. I guess you're talking about the portfolio of restructured, which is INR64 crores, right.

Onkar Ghugardare: Yes, yes.

Suresh Iyer: So INR64 crores, as I said, is mainly because of the restructured pool of INR450 crores, which has INR460 crores, which has already come out of restructuring. So that's about almost 65% of the restructured book has already come out of it. The balance is only INR210 crores. So going forward, it will definitely not be as high. And even, as I said, even if you consider the same percentage, which is 14%, then the numbers will be less than half of what we have already seen already. So INR64 crores, maybe another INR30 crores is what we can see, but not beyond that.

Onkar Ghugardare: Okay. Another question is on the growth fund. You mentioned around 20% growth we are targeting for the next 3 years, what kind of AUM growth we can look forward in that and around the margin -- NIM margin also?

Suresh Iyer: See, we would be comfortable with our spread and NIM of 2.5% and 3.5%, respectively. And in terms of the AUM growth, if we do about 20% disbursement growth, considering the present level of prepayments, amortization and everything, we should be around 18% kind of growth in terms of AUM growth for the next 2 to 3 years.

Onkar Ghugardare: Okay. And this NIM percent and yield you mentioned for the upcoming quarters? Or this is for the long term, you are maintaining this 2.5% and 3.5%?

Suresh Iyer: In the long term, we would be comfortable with about 2.5% spread. I think as the thing a 2.5% spread is something which is comfortable to work with, considering that net-net, after all our expenses, after all our cost and credit cost and our opex and everything, we'll still be able to maintain a 2% plus kind of ROA.

Onkar Ghugardare: Okay. And what kind of gearing you will be comfortable at?

Suresh Iyer: Currently, our gearing is below 8% -- 8x, and we would be comfortable and we would not want to go beyond 8x.

Onkar Ghugardare: So that leaves you for capital, right?

Suresh Iyer: 8x gearing to ROA would be about 18% growth from internal accruals. Yes.

Onkar Ghugardare: Okay. So any plans to tap the capital markets for this upcoming growth you're talking.

Suresh Iyer: No, no, up to 18%, if it is there, we will be able to meet from the internal approvals. Yes, if it is a good year, if the growth picks up, if some new scheme is announced by the government or any testing which pushes the demand then definitely, we will have to look at capital if it goes beyond 18%. Presently, as you know, the rating agencies ICRA and CRISIL have mentioned about 13 to -- 14% to 16% expected growth rate for the industry in the current year.

So tomorrow, I mean, if overall, there is a good kind of incentives provided or something and some new scheme launch, then in that case, it is possible that growth rates might pick up, in which case, we may have to look at something because gearing beyond 8 would not be prudent or would not be very comfortable even from the rating agencies or anything.

Moderator: The next question is from the line of Shweta Daptardar from Elara Capital.

Shweta Daptardar: Congrats on a good set of numbers. Sir, my question again pertains to the growth numbers. So two apprehensions that I have. One is the actions which we have taken on the operating systems front, wherein we have mentioned that the disbursements have been centralized. So now that the disbursement or the decision-making authority has been product removed at the bank level? Does it impact the incremental growth? Point number one.

And point number two, so you just mentioned that the INR6,000 crores odd kind of run rate is very much plausible on disbursements in second half given the maintenance of current repayment rate, but if I look at the scenario where in Bt cases have been slightly on the higher side and given that you're almost doubling the disbursement from the current odd levels. And if I assume current repayment scenario, then the growth is sort of -- the final AUM growth is sort of not -- and conjecture, which I'm getting is it's not getting closer to 18% plus. So could you just clarify the math?

Suresh Iyer: Yes, sure. So first is regarding whether the growth of INR6,000 crores would be possible or not. See disbursement of INR6,000 in the 2 quarters. If you look at it in the previous year also, we have touched somewhere around INR2,500 crores in terms of the disbursement in a particular quarter. And we would have probably touched somewhere closer, in this current quarter also had this additional impact not happened.

So now coming to the impact of the centralization of disbursement, actually, it is not that the power or the disbursements have been completely withdrawn from the branches. The branches only scheduled the disbursement. The branches are only assessing the cases and sanctioning is also decentralized as it was done in the past.

The only thing is because the check-signing powers are also decentralized and we wanted to withdraw that and add an additional control point, that is why we have just added another maker-checker concept at the head office, wherein certain documents are verified and use confirmation and everything is taken.

So basically, what we have done is on a day, there is a cutoff of 12:00, wherein the branches have to feed in all the disbursements like they have normally been doing. There is an additional check-in which happens at the head office post which the disbursement requests are sent to the bank, Canara Bank and DDs are collected in the evening around 4 and 5 p.m.

So instead of having a full day available where any time they could do a disbursement, it is only a matter of planning where the branches have to ensure that by 12:00, they are able to schedule the disbursement. If it doesn't happen, then it will happen in the next day. So it's not going to add to any kind of an operational issue or increase in TAT, which will affect the business, okay? So one is as regards to the business of INR6,000 crores, we have done INR2,500 crores, so a little bit of push to make it INR3,000 crores would not be too far-fetched I feel.

Second thing is, we have also planned some additional branches for this year. We have already opened 3 branches in the second quarter, and we are already in the pipeline another 9 branches where we are at a stage of negotiation for the property or recruitment is spending and all. So that also will help to the -- in terms of the -- adding to the growth.

And the third point is the ticket size, as I had mentioned earlier, that this slight increase in the 25 to 50 and 50 plus segment that we are seeing, that will help us in improving the ticket size also. So that is the three points which are there. And of course, with the buffer that we are having in terms of the rate hike, which will help us in the spread, we have an opportunity to offer good rates to get the market, that's another thing why the growth should happen.

Now the other point that you mentioned about prepayments. So as I mentioned earlier, between the first quarter and the second quarter, the absolute increase in the prepayment and amortization only to the tune of INR100 crores, which is about INR30 crores a month, which is not a very large amount considering that we have 200 branches, 208 branches to be precise. So it's not that there's a very large run on the -- in terms of disbursement or any major kind of a thing. During the entire quarter, Q2 compared to Q1, there is an increase in terms of prepayment to the extent of INR100 crores put together, 3 months. So I hope I've answered all the points.

Moderator: The next question is from the line of Pavan Kumar from RatnaTraya Capital.

Pavan Kumar: Sir, can we -- for the INR450 crores, which has already come out of the restructuring before June. Are you confident that this INR64 crores of GNPA in balance? Or do we think anything further might come out of that book itself?

Suresh Iyer: I don't think that is -- I mean in the normal course; some slippages here and there would happen. But again, there would be a total -- some payments also coming, recovery is also happening. So I don't think there is much of an impact -- too much of a higher impact that is likely. We are confident we should be able to do it. Recovery efforts are there. We are also pushing further adding, maybe we will add some more staff and all because we had anticipated about 10. It is slightly higher than that. So we are adding resources on the recovery front and also I am quite confident we should not see any major spike in that.

Pavan Kumar: Okay. So basically, INR64 crores from INR450 crores and additionally, if anything comes from INR210 crores that has come out of the book, right?

Suresh Iyer: That will come out of the book, yes.

Pavan Kumar: Okay. And what do you expect once this restructuring book is done and over there what should be the normalized credit cost going forward?

Suresh Iyer: See, the credit cost in terms of ECL provisioning and all that's a different issue that is a normal thing. We have a Stage 3 provisioning of 0.42, that's in the normal course will continue. Credit cost in terms of actual write-off or anything of that sort, I don't -- I think 10 bps is more than enough because traditionally, it has never been beyond that. It is, in fact, not even 7 bps actually. So I think 10 bps in terms of the credit cost for write-offs and all those things put together would be -- should be good enough.

Pavan Kumar: Okay. And one last thing, sir. When I saw your presentation, if I'm right, there is a decrease in standard asset provisioning, putting those to INR7 crores. What would that actually mean?

Suresh Iyer: See, actually, in the beginning of the year, whatever we had in terms of our Stage 1 assets, we've had a lot of -- the absolute value of 0 to 30 bucket has actually come down, okay? And with more of a portfolio now moving into regular payments and all, in fact, in the ECL model, this percentage itself is the 5-year analysis that has been done on the actual track because the ECL works on a pure scientific model where 5-year repayment analysis is carried out.

And then the probability of default, and this is evaluated. So based on that, the portfolio is reflecting that. So the main effort was we tried to also pull down in terms of the overall amount, which was in SMA-0, SMA-1, and SMA-2, so that has also brought in results. Our overall portfolio which is in the SMA-0, 1 and 2 has come down, where net of the amount which has moved into NPA.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: Just one or two clarifications. You will still have around INR280-odd crores of loans which come out of restructuring or which have probably come out of restructuring, but we don't know if they are standard or NPAs. And I think against that, what you mentioned is that you have around INR34.28 crores of overlay and around INR68 crores of provisions on restructured loans.

Suresh Iyer: Correct.

Nischint Chawathe: My reading is also -- all this around INR100-odd crores is available for this INR300-odd crores of loans, which we'll have to see whether -- how much of it can turn back.

Suresh Iyer: Yes. But again, it is -- while it is for the restructured book, as I had also mentioned, it is also because our PCR is only 44% in terms of stage -- it's 44% in case of Stage 3 assets, okay? So part of it, we would like to also retain our -- we would also like to -- we also would like to maintain to have a slightly better PCR. So it is not that it is the entire additional management overlay or whatever is being carried is because of -- in the restructured book only. Some of it is also because of -- we would like to slightly have a better PCR.

Nischint Chawathe: But in that sense, is it fair to say that if the slippage rate from restructured book is similar for the balance INR300-odd crores, then you may not require another management overlay. I think is that a fair assumption?

Suresh Iyer: That is a fair assumption. In fact, by March you would have a complete fair picture. And we would probably have some excess, which we can write back. But as I said, we may not because we would like to still maintain a healthy PCR. But in terms of the portfolio, the way we are looking at it, yes, this available management overlay should be more than good enough to handle the excess -- additional provisioning under ECL.

Nischint Chawathe: And just one clarification. I know you started off with this that disbursements were a little weak this quarter. I didn't quite follow the reason for this.

Suresh Iyer: See, we had this incident in the month of July, where this fraud had happened. So obviously, after that, we tightened a lot of things even in terms of the sentiment there was a little bit of impact. And we have tightened certain processes and additional checking, and we had this entire exercise, which was carried out to ascertain whether the same thing is happening in any other branches. So there was an additional reconciliation, additional visits carried out. And then we had the centralized disbursement.

So we also had an extensive round of training, which is conducted across for all the branches. So all those things have been additional things which have impacted our -- the business. Basically, it is just that there were too many other diversions as well. So that is the main reason. That is, I would say, the main cause for this.

Nischint Chawathe: I think 2, 3 quarters back, you have called out some sort of a weakness in higher tickets. So would you sort of say that from a demand point of view, things are sort of -- there's no issue at all and things are back on track or would you still say that there may be some focus or there is a little bit of weakness?

Suresh Iyer: I mean I didn't get your question. You were saying in the higher ticket size, what is the point?

Nischint Chawathe: My question essentially is on the demand side; do you see weakness in any pockets at this point of time?

Suresh Iyer: See, not in the segment, as I mentioned earlier, this INR25 lakh to INR50 lakh and above INR50 lakh, we are actually seeing increase or improvement in terms of the business as well. And this particular ticket size, we are not seeing any kind of a slowdown or anything. Yes, to some extent, affordable might be a little slow because post CLS withdrawal, there could be something. But in the INR25 lakh plus basically, I would say, not even INR25 lakh plus basically the 2 BHK and 3 BHK and that kind of a segment, which is the midsize and definitely, there is a good demand. So that is -- I mean, I don't think there is any flatness in that particular segment. Not at least what -- not in any of the markets that we are operating in.

Moderator: The next question is from the line of Anusha from Dalal & Broacha.

Anusha: I just want to understand what is average ticket size currently?

Suresh Iyer: For the Q1 as well as Q2, our average ticket size for HL was around INR22 lakhs and for NHL was around INR8 lakhs.

Anusha: Okay. And for the entire book, if we have to take?

Suresh Iyer: For the entire book, we'll have to work out. I'll probably come back or we'll put it somewhere. But right now, it is -- we will take that.

Anusha: Sir, I just wanted to understand, incrementally, you said that in average ticket size, if you're looking at INR25 lakhs to INR50 lakh bucket and INR50 lakhs plus. So going forward, say, over the next 2 years, how do we see this high ticket size segment share in the overall loan book?.

Because I also want to understand with the related competition in the high ticket size is higher from the banks and other NBFCs. So how you would like to grow in this at INR22 lakhs, which you -- the tickets that you had and plus on the higher-end side. So what is the share that you might look at it in the next 2 years' time?

Suresh Iyer: See, we have indicated that while I don't have the kind of breakup of how much of it would go into the kind of more than INR50 lakhs segment, but definitely, we are looking at the ticket size moving up to the present INR22 lakhs in the HL segment to around INR27 lakhs to INR30 lakhs in the next 3 years or something. So this would mainly come because we would be pushing for the business in the INR25 lakh plus segment also.

Now competition, obviously, is there and -- when we were in this lower segment, there was also a segment that now the bigger players are also open to come to the lower segment. So that way, everybody -- the competition is always going to be there. So we'll have to find our space within that INR25 lakh plus segment as well.

And with this APF, what happens is that it's not only a matter of a loan amount, which matters. It's also a matter of segment. It is also matter of the customer profile. It also is a function of the local presence that we may be having in certain pockets. So all those will contribute. So it is not that we need to have a very sizable chunk of the market to be able to do it.

Looking to our size, I know even if you get a small 2% to 5% kind of customers in the bigger ticket size, INR25 lakh plus in projects that we are approving, we should be able to get a good sizable amount of business from that, because we had -- like we have started this APF, we are looking at about 350 to 400 projects to be approved during the year. Now if 350 to 400 projects are there and we are able to get 2% to 5% of the business from those projects also. I think that should also add up to quite a bit of the business.

Anusha: Okay. And sir, on the margin side, if I just look for the Q1 margins, they were around 3.5% plus, Q2, it was 3.8%. And you said that going forward in H2, there's INR6,500 crores worth of what could we get repriced with 35 basis points the rate hike that you had done.

So in my opinion, I think the trajectory should be, I think, definitely should be much higher than the blended for the FY '24 should be much more higher than 3.5%. Then the guidance is actually much lower than you have been putting it out. So that is purely because the deals on this incremental basis are lower, that is precise even that you are aiming for lower margins.

Suresh Iyer: As I mentioned earlier also that yes, there is a buffer available. And in this quarter itself, we are pleasant -- it's been a good healthy growth in the NIMs and spread. So definitely, as indicated earlier, we would -- this will give us a lot more comfort to offer better rates to attract customers in the INR25 lakh plus segment.

So we would be -- that's why we would be open to kind of compromise on the spread up to 3.5% -- sorry, NIMs up to 3.5%, so that we can get some growth. That's why we continue to have a 3.5% kind of guidance in terms of NIM.

Anusha: Okay. And I missed out your credit cost guidance that you mentioned. So what was that number for the FY '24?

Suresh Iyer: 14 bps for the credit cost -- I mean not the ECL provision, but in terms of the credit cost, absolute losses and all those things, not more than 10 bps.

Anusha: Okay. So this will be -- so on a normalized basis, that's a run rate that we should look at?

Suresh Iyer: Correct. That is right.

Anusha: Okay. And just one last thing on the opex side. I think you had said that you will be opening closer to around 15-odd branches. And I think the 9 more are yet to open. So do we assume that opex cost and the NIM should be higher in the second half?

Suresh Iyer: To some extent, yes. They would be higher. You are right, there would be slightly higher although this would not be the main reason. But along with this, there will be a little bit of additional staffing that we have projected, which will be joining. We also have this IT transformation, which will also have a little bit of a cost. So the small IT interventions and all those things that we are doing. So all those would have a cumulative impact. And yes, we had indicated that by the end of the year, we can probably look at somewhere in the range of about 18% cost-to-income ratio.

Anusha: Okay. Sir, last thing on putting all these things together, how do you see ROE for the current fiscal?

Suresh Iyer: This quarter, of course, because of this exceptional item of provisioning for this Ambala incident, but other than that, we are confident ROA of 2% should be -- we should be able to maintain an ROA of 2%. In fact, we have given that by excluding that event, our ROA has -- would have been 2.21% in this quarter, excluding this demand. But because of this onetime event, it is 2.01%. Otherwise, if this onetime provisioning had not happened, it would have been 2.21%.

Moderator: The next question is from the line of Bhuvnesh Garg from Investec Capital.

Bhuvnesh Garg: Sir, I have a question regarding the RBI guidelines on change in EMI or increasing the tenure, the guidelines, which were issued in August. I just want to understand the impact of like how we used to do it earlier and what has changed after the guideline. Yes, that's my question.

Suresh Iyer: Okay. Now actually, there are two guidelines which the RBI has come out with. The one that you mentioned about the variable rate and the customers giving -- having an option or a particular number of times, they can move from a fixed to floating or floating to fixed, okay? That is one particular guideline. That may not have too much of an impact because it is more of a transparency and giving a customer an option.

And we are already having an option that customers can -- we are already having a reset clause where every time the rate changes, there is -- the card rate and the card rate, the customers at the time of the reset are put back into the card rate depending on the kind of credit scoring or the credit band in which they are falling.

So that is already being there. So the customers don't even have to ask for it. So in terms of that, we may not have much of an impact except that we don't have a fixed rate loan, which you may have to offer. But looking to the trend of the customers, there is not much of a demand for a fixed rate loan. Most of the customers are comfortable and the last about since 2003 to 2023, there have been 20 years that customers are now completely used to fluctuations, there has been upward movements as well as downward movements. And so customers may not have so much of a request for fixed rate loans.

And this particular request or this guideline has also come mainly because for the first time in the history of so many years, that has been such a sharp rise in the interest rates in the market in such a short period of time. So the -- we don't expect that it will have much of an impact. However, since you raised the point of RBI guidelines, there is another guideline by the -- from the RBI for all lending institutions, including banks, wherein the penal interest rate, you'll have to -- you cannot compound and they cannot be in the nature of a percentage. It has to be for us on an absolute value, and it cannot be compounded. That is something which will have a larger impact for all the players, but that will be something which will impact everybody. So I think that is what we'll have to see. But that is not yet implemented, but we still have time.

Bhuvnesh Garg: Okay. So would you be able to quantify that, how much that impact of penal interest would be there?

Suresh Iyer: No, not right now, but we have evaluated. We don't have too many instances that actually it is going in the nature of penal interest. Mostly, it is the nature of the penal charges, but yes, compounding impact. We'll have to see how much of it is there and how to handle it. But the way the systems will have to be changed and everything, we'll have to see whether that deadline given by the RBI is maintained or there is some possibility -- there is some extension which happens. But as of the moment, we have not quantified it.

Bhuvnesh Garg: Okay. Okay. And sir, if you can provide the breakup of customer base in terms of how many of your customers haven't seen any change in EMI, also have only seen increase in tenure over -- since the rates have been increasing and say, how much percentage of customers have seen, say, 10% increase?

Suresh Iyer: I don't have it right now, but I can -- we can probably look at it and provide it. I don't have the data available.

Bhuvnesh Garg: Okay. And is there any change in the customer behaviour post RBI guidelines that whether the customers are actively asking for increasing the EMI or increasing the tenure? Is there any change in customer behaviour?

Suresh Iyer: See, by default, we are offer or as per the loan agreement, it is a change in tenure because for the customer, it is kind of an inconvenience if they have to keep on changing the EMIs, they will not have an idea as to how much to provide for in their cash flows. So that is something which is generally accepted in the market. And only in the event where the tenure crosses that limit of 30 years or 70 age cap that we have or if this results in a negative amortization, that is when we go for an EMI change. The number of customers who opt for a change in EMI is not a very large number. I wouldn't say it is even in the lower single digits.

Moderator: Thank you. The next question is from the line of Dipanshu Suman from Vriddhi Capital. Please go ahead.

Dipanshu Suman: Congratulations on good numbers. So I just wanted to understand on the cost-to-income ratio. So right now, we are at 16.25%. So for coming, say -- coming 2, 3 years with -- after initiatives on branch opening as well as on the digital side, how do we try to model this?

Suresh Iyer: See, branch expansion, we have planned for just 15, 20 branches every year. And most of our branch -- instead all our branches are on opex model where we just have a lease, rentals and registration and all those things. So it's not a very large cost, but that will not be a major impact. However, we have an IT transformation, which is planned that will have an impact in the coming years, at least for the next 2 years.

We feel this could be slightly elevated and go up to about 18%, 18.5%, in the coming 2 years. But beyond that, as the size increases, the book size increases, this would probably get absorbed and again start coming down. But in the next 2 years, that is the current and the next year, probably this could be slightly elevated because of the IT transformation more than anything else.

Dipanshu Suman: Got it, sir. So most of the other points already you have clarified, but just wanted to understand from you, what are the reverse of what we have on the ROA side. So right now, as you said, we are at 2.2% for this quarter, excluding the exceptional. So how do we try to see that we can be at 2.2%, 2.3% over a longer period of time, say, for example, 3 years kind of?

Suresh Iyer: See, I would love to have a ROA of 2.2%, 2.3%. But as the size increases, as we also are moving into the slightly higher ticket size loans, I think we'll have to be a little more -- we'll have to understand that this probably could stay, rather come down rather than go up to 2.3% and 2.4%. So I mean, if you have to factor it into your projections, I would say figure of 2% in the longer run would be a little more appropriate rather than looking for an increase in the ROA rather of 2.3% or 2.4% from the current level.

That will be a little more realistic, I would say, rather than going for a higher because ROA because as we are more in the ticket size, we have to be a little more competitive, and we may have to offer some better rates, which will impact our spreads, which will impact our -- some offers, special offers and all those things will have to be offered. So that would do it, but we would be more comfortable with about 2%, and we would like to maintain at 2% and not go below that.

Dipanshu Suman: Okay. So -- got it, sir, but do we have something in mind from the product segment basis? Say, for example, builder side or are they on the loan against property side and the product mix, which we can -- which can help us to be at a 2.1%, 2.2% kind of?

Suresh Iyer: See, we do have certain options in the sense that we have a very low percentage of business in the LAP segment. We don't offer these products like LRD or we don't have the structured loans or things like that. And we don't practically have minimal or nil, I would say, loans in the commercial segment, okay? So those options are always available, along with the construction finance also which is offered by many other players.

So I mean, if at all, there is a conducive environment and we are in a position, we may look at it at a later date, but not as of the moment. I think we are comfortable with the pure home loan segment, self-construction or purchase cases. And even within that, we have a good healthy mix of salaried to the self-employed of 72% to 28%. So I think if we are able to operate in the same segment, we would like to maintain it as far as possible. But yes, there are a few levers available, which we are not looking at as of the moment.

Dipanshu Suman: Okay, sir. So right now, you have already been for almost say, 6 months. So any -- opportunity or say, low hanging fruits, which you see in which can help us out in the shorter term from the growth perspective, any other low hanging fruit, what you would have observed or any of the key observation which is bothering you? So both -- on both sides -- one on the opportunity side and one on the concern side. So any key concerns what you feel?

Suresh Iyer: Well, I can't -- I've articulated this quite often. But just for the sake, I'll just mention, see, one of the opportunities is -- on the IT front, we have embarked on an IT transformation and that has been actually long overdue. So once that happens, that's going to help in our -- in terms of additional obviously a latest state-of-the-art kind of a technology platform will help us in better analytics, will help us in better CRM and all those things. So that will definitely be a positive, which we can look forward to. We have already embarked on the IT transformation project.

The second, of course, was that it was a single sourcing channel on which we were dependent upon and we have tried to diversify that and add a couple of more channels, which is the APF as well as the digital onboarding and digital sourcing. So this is another positive, I would say.

In terms of the negatives, of course, it's clear that if we have to move to the slightly higher ticket size, we will have to compromise and will be open to a little in terms of our spread and NIMs. So that is the main force.

We already had -- in the beginning, when I -- when I joined it, obviously, there was this concern about this restructured pool where a majority of it has already come out. So I think by March, that particular part of our -- that small grey area would also be very clear by the end of this financial year. So that also was one of the areas of concern, which now we are a little more clear as to where it is happening, and we are taking corrective steps on that as well.

Moderator: The next question is from the line of Gaurav Jani from Prabhudas Lilladher.

Gaurav Jani: Couple of bookkeeping questions first. Can you quantify the investment income in Q2 and Q1, I think it was...

Suresh Iyer: Sorry, can you just repeat it -- what is that?

Gaurav Jani: Can you quantify the investment income, please, for Q2 and Q1?

Suresh Iyer: Investment income you're asking about?

Gaurav Jani: That's correct, sir.

Management: The investment income for this quarter is INR31 crores. And for last quarter also, it was the same number, INR31 crores.

Gaurav Jani: Okay. Sir, secondly, I wanted to clarify on the entire movement of the provisions and the PCR. So what I understand is this quarter, about INR64 crores has slipped from the restructured to the NPA, right?

Suresh Iyer: Not in this quarter. But yes, we have had -- we started off with INR174 crores as of March. And today, we are at INR254 crores. So...

Management: Broadly 26 and 54, 80.

Suresh Iyer: Yes. In this quarter. Yes. You're right. INR64 crores in this quarter and 20, something in that previous quarter. You're right, correct.

Gaurav Jani: So which means, sir, where I'm coming from this NPA provisions are about INR16-odd crores, I believe those are COVID write-offs, right? I mean because last quarter, there was again a restructured slippage to NPA of about INR17 crores. I believe that is completely written off this quarter. That is a PCR has come off, sir.

Suresh Iyer: No, no, there is no write-off. It is the NPA portfolio, the efforts for recovery continue. It is not a write-off. They are NPAs. So they are accounts the payment is not coming, but the asset is there. The customer is there. And so the recovery efforts will continue, and the provisioning will also continue as per the requirement of the ECL model, whatever is required, we'll be continuing with. And normally, if once an account goes into an NPA, we -- as per the ECL model, we have considered or our past record shows that the repayment happens in 5 years.

So there is a 5-year period in which the account comes to a closure. Either it gets regularized or just think some of them will remain in an NPA for a longer duration and all. So earlier also, if you look at IGAAP requirements, it was 15, 25, 40 and 100, wherein it was going up to beyond 5 years also. So that was the thing.

But in the case of ECL, when the consideration is purely based on the statistical data, so our track record shows that on an average, it doesn't go beyond 5 years and the account gets closed or either which way, maybe with a little bit of a onetime settlement or a small waivers or something or with a full recovery, so that's the kind of thing.

So these accounts of 18-point-something, which became an NPA from the restructured put in Q1, they are part of that INR64 crores, which are an NPA as on the end of the second quarter. And they will be -- they have been considered in the Stage 3 assets for the purpose of our ECL calculation.

Gaurav Jani: Sure. Sir, basically, the last 2 quarters, we've seen a decline in PCR. So what you're alluding to is that's basic -- that's largely because of the slippage from the restructure to the NPA and that initially would obviously entail lower provisioning.

Suresh Iyer: Correct, correct. That is true. That is true.

Gaurav Jani: Understood. Understood. Sir, lastly, in terms of, again, hopping on this point of disbursal for the second half, right? So what I understand is most of the processes would have been implemented by September end?

Suresh Iyer: Yes. If you see the presentation, yes, most of it in terms of the centralized disbursement, lead sourcing, pilot projects, reconciliation, CRM, all those things, yes, we have implemented by the end of -- by September, yes. Most of them have -- are operational from 1st October or something like that, yes.

Gaurav Jani: Correct, which means that October would be a normal month, right?

Suresh Iyer: Yes, we should look at October as a normal month, except that it has too many holidays. But other than that, yes, it will be a normal month where Diwali and Dussehra falls -- Dussehra.

Gaurav Jani: Correct. So till date sir, could you quantify the amount of disbursals that you would have done? Or what sort of number are we looking at in terms of October?

Suresh Iyer: So as we said, we are looking at a INR10,000 crores disbursement by the end of the year. So we should be doing about INR3,000 crores and that is what we are pushing for in this quarter.

Gaurav Jani: Sir your targets were about INR1,000 per month, so which is what I was getting at.

Suresh Iyer: Yes, yes. So that's the kind of a thing. We have given our targets accordingly only, and we are pushing for that.

Moderator: So the next question is from Akshat Hariya from Multi Act PMS.

Darshan Shah: This is Darshan Shah from Multi-Act. I just have one question. Can you please share BT-out number for the Q1 and Q2 of this year?

Suresh Iyer: See, we have a total amount of portfolio, which is inclusive of the amortization, I can probably separate it and give it to you. But in Q1, the total amount of amortization plus prepayment put together was INR105 -- sorry, no, no.

Management: Q1 was INR1,025 crores. And this quarter, it is INR1,165 crores.

Moderator: The next question is from the line of Aravind R from Sundaram Alternates.

Aravind R: So I would like to understand, so this APF loans, would it be like only residential, like individual home loans or like will it also include the commercial loans? That is my first question..

And sir, since the higher ticket sizes in APF loans is much higher, like above INR25 lakhs, it could even be in the range of INR30 lakhs, INR40 lakhs, even INR50 lakhs? Couldn't -- can it not up the growth potential for the company itself like from 18% to even 20%, 21%, something like that.

And another question I would like to understand, I mean, kind of another query I would have is the interest rate sensitivity, let's say, like if there is a 100 bps rate cut in next year, like how can it show up in the yields or the cost of funding?

Suresh Iyer: Yes. So first of all, your thought about this APF, whether it also is commercial. No, we are only doing residential loans presently in the APF project. So if it is a kind of a loan with a shops plus houses, we would be targeting the houses or the flats in the particular scheme for our APF projects that is one, because as I said, we have a minimal to almost nil kind of a portfolio in the commercial segment as of the moment. So that's what is the first point.

The second point is as regards to the disbursement of the APF, yes, we are also expecting the average ticket sales to be in the range of INR35 lakhs to INR40 lakhs for the loans that we give in the APF segment. So that is one of the key factors why we are confident that we should be able to achieve this kind of 18%, 20% growth in loan, 18% loan book growth and achieve about INR1,000 crores in the disbursements.

And third, as regards to your stress testing the interest rate sensitivity calculations, we have 3 levels of testing that we do for our -- in our stress testing. And we have a scenario where even up to 1%, if there is a hike or a change in the interest rates, we do factor in and consider as to what would be the impact in terms of our interest rate sensitivity, we do factor in and whether we are adequately capitalized and whether we are -- how much it would impact in terms of the profit is being monitored.

And we are even monitoring the kind of limits that the Board has set the limits for what kind of variation is acceptable and what will be the breach limit. So we are not reaching the -- I mean we will not be crossing this, breaching those limits that have been laid down by the Board, even with a 1% variation in the interest rate, either way.

Aravind R: So you are seeing like there won't be much impact on the spreads or margins because of the...

Suresh Iyer: No, I'm not saying there would not be an impact. I'm saying that we do have this stress testing mechanism wherein we are doing 3 levels of mild, medium and high kind of 3 levels of stress testing done. One of factors is wherein in case of the interest rate sensitivity, we do consider up to a 1% high or a drop in interest rates, either which way, depending on the -- how much fixed rate and variable rate you have on the asset and liability side, it could go either way.

The Board has set the limit in terms of how much of variation in terms of the profit is acceptable. So there could be some impact or negative impact also in case of the interest rates, but they are within the limits that have been said. So we are quite comfortable within that. And these obviously are conservative limits, which have been set by the Board.

Aravind R: Okay, sir. Just one thing on APF, like so that ticket size is higher, and we are entering more and more into the banks and territory of customer segments, what kind of things would we be like a little more relaxed in terms of selecting the customers, I would try to understand in comparison to the banks?

Suresh Iyer: Well, the segment of APF that we are targeting, we have -- first of all, we are trying to work with the CAT B and CAT C developers, because obviously, CAT A developers would mean they would be very, very competitive. They would have much more attractive options available to them. So matching them would be a huge compromise from -- for us also. So in terms of that, we are looking at a CAT B, CAT C kind of developers where the project sizes are kindly slightly smaller, right -- not more than 100, 150 units in a particular project.

And we are also aware that we will not be able to look at the very high end of the segment that is 4BHK or very, very luxurious kind of apartments and things like that. So we are more concentrating in terms of our APF, in terms of our 2 BHK and 3 BHK segment, which normally would be in the range of about INR25 lakhs to about INR1 crores. That is a segment that we are operating in. So I mean, if it has to be a property of INR2 crores flat, which over each crossing INR2 crores, probably we may not be touching those kind of properties for our APF segment.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: I think you have answered most of the questions that I'm about to ask but asking them again just for better understanding. Sir, I mean, lot many people today asked what led to slightly muted disbursements. You explained it by saying that somewhere towards the end of July, we came across frauds in the Ambala branch. But sir, when we kind of look at or when we kind of speak to your peer set, there is a definite acknowledgment of a demand slowdown that you also talked about in slightly lower ticket sizes, I would say, INR15 lakhs to INR25 lakhs, probably an outcome of the withdrawal of the CLSS subsidy.

So for you, in particular, disbursements slightly lower than maybe even your expectations, most predominantly because of the distraction, which was there because of frauds which were subsequent process, fixing, employee training, branch trainings? Or would you attribute it to weaker demand? And so my related question here, is the demand genuinely weak or is it that a particular bank or an NBFC is wholly aggressive in mortgages and which is kind of leading to weaker demand environment for the other players?

Suresh Iyer: See, in terms of the first question, is it because of this the incident and the repercussions that we had, I would say, it was because of that only because -- in spite of all these things also, we have seen an increase in our business in the INR25 lakhs to INR50 lakhs and above INR50 lakhs segment in Q2 compared to Q1.

And in terms of our project launches, in terms of our -- the kind of demand, particularly in that segment, we are definitely seeing that it is continuing. There is no slowdown in that segment. But you rightly pointed out in the smaller segment, which I also earlier mentioned that post CLSS' withdrawal, there could be some kind of a little pressure in the smaller ticket size or affordable segment because supply has always been an issue. But for the CLSS, which was a very good incentive for people to enter that segment..

So that is definitely there. But in the segment where we are having a ticket size of INR22 lakhs, and we are looking at the APF where we are targeting INR25 lakhs to INR1 crores kind of projects. So there, definitely, the demand is continuing, and we don't see too much of a slackness, okay?

Second, as regards players whether somebody is becoming too aggressive. No, I think overall, everybody is trying to operate in their own comfort zones and areas and is trying to be as aggressive within the limits that are possible. So there is no single player who is becoming any great competition or anything of that sort.

But having said that, I would probably say that, yes, some of the players have slightly come down in terms of the ticket sizes, like probably we -- I mean the competition phase of the competition has almost remained the same, except probably a couple of NBFCs have entered the market, that's about it.

Abhijit Tibrewal: Sir, the second question that I had was on NIMs, again, you've commented extensively on that, that to spur growth, we are okay compromising margins and spread as long as they remain above your guidance of 2.5% spreads and 3.5% margins. But sir, the way I look at it the third quarter you have a couple of levers, like you said, almost INR6,500 crores kind of got repriced in the second quarter. The full benefit of that you will get in the third quarter another INR6,000 crores will probably get repriced in the third quarter. The full benefit of that you will get in the fourth quarter.

But having said that, like you said, in the festive period, you are offering loans below 9% for new customers, for the existing customers it's 9.6%. At the same time, because you will be working under APF developer tie-ups to spur growth in higher ticket sizes, quite naturally, you need to be aggressive because you will be competing with banks in those ticket sizes. But net-net, is it right to conclude that from here on, versus what you reported in Q2, we should see margins moderate and which we also aid your disbursements. Like you said, you're targeting almost INR3,000 crores each in 3Q and 4Q.

Suresh Iyer: No. You're reading is right that we do have certain levers and we do have certain areas like absolutely rightly pointed out that this rate hike is yet to have the full impact. And so there would be -- on a steady-state basis, if we had not changed gears or if we had not changed the segment, probably we would have seen an uptick in the spread and margin, but we would like to enter the new segment, and this is a good time where we can use this buffer to offset that thing and enter the new market. So we will -- going forward, you can see that probably 2 points might either remain and/or might come down. But we would not want to go below 2.5% in terms of spread.

Abhijit Tibrewal: Got it, sir. And last question is, I mean, this quarter, the effective tax rate was lower at I think, 20%. What was the reason for the lower effective tax rate?

Suresh Iyer: See, our tax rate in Q1 was around 22%. But this time, because of this impact of this Ambala provision that we have taken, there's a deferred tax asset also which is to the tune of about INR10 crores -- INR13 crores. So because of that, the effective tax rate for this quarter is a little lower. But otherwise, if you had to kind of project it into your figures, probably you could continue it as a 22% because this is a onetime impact for this quarter.

Abhijit Tibrewal: Got it, sir. So for the full year, it still remains at 22%, is it?

Suresh Iyer: 22% net of this INR13 crores, which we have to continue in terms of the deferred tax in this year.

Moderator: The next question is from the line of Jigar Jani from B&K Securities.

Jigar Jani: So just a couple of them. One, on the APF side, any particular targets you have probably out of the INR6,000 crores, how much disbursements you're targeting this year in the second half on the APF side? And for next year, especially the one that this is likely to be a one major growth lever that is likely coming out of say INR12,000-odd crores of disbursements that we are targeting next year. How much are we kind of internally targeting from the APF segment, that's one.

And secondly, on the opex front, on the IT infrastructure, I think we have guided INR460 crores of opex, the IT systems over were spread over 2 years. I just want to understand how much you have spent in the first half? And how much is pending to be taken in FY '24? Hello?

Suresh Iyer: Yes, sorry. The first -- on your APF question, we don't have a specific amount we target for the current year. As I mentioned earlier, however, we have kind of said that our target that we should try for about 350 or to 400 kind of projects to be approved during the current year. Now obviously, this project approvals happen at a very nascent stage when the kind of project is just getting launched.

So actual disbursement and all for these projects also will come at a lag. That's why for the current year, we will get some benefit, but we have not quantified it. Having said that, going forward, we have said that now 20% of our business should come from this segment of APF. Currently, we have 80% plus coming only through the DSA channel. And we would like to in the 2- to 3-year kind of a horizon, we would like to see it come down to about 60%, 20% coming from the -- from our APF segment, some 10% coming from a digital sourcing and channel and whatever remaining 10% would be from our walk-ins and existing customers coming for repeat loans and things like that.

Jigar Jani: And on the opex? On the opex for IT...

Suresh Iyer: Hello?

Jigar Jani: On the opex for IT infrastructure.

Suresh Iyer: Yes, I'm in that point. See, on the opex, we have not actually spent anything in the current year, except for -- because we have still not finalized the vendor. The vendor we have mentioned in our presentation also is likely to be the system integrator is likely to be finalized in this particular month, in October, we are expecting October or by mid-November. So the expenses have not been -- have not come into the -- so far in this current year. But once the SI is implemented, then the expenses will start. That's why while we have projected that it could go up to around 18%, 18.5%. As of now, it is still only 16.25% in terms of the cost-to-income ratio.

Jigar Jani: Okay. So probably in the second half is what we are seeing some impact.

Moderator: Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Suresh Iyer: Yes. Thank you, Nidhesh. Thank you to all the participants for taking out the time and for all the questions. I hope we've been able to answer all the questions. And if at all, there are any queries that are left out, you are -- you are most welcome to get in touch with us. Thank you once again for taking the time and for hearing us out. Thank you.

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