# "CanFin Homes Limited Q1 FY-19 Earnings Conference Call"

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**MODERATORS: MR. UTSAV GOGIRWAR – INVESTEC CAPITAL**

**Moderator:** Ladies and gentlemen good day and welcome to the CanFin Homes Limited Q1 FY19 Earnings Conference Call hosted by Investec Capital Services. As a remainder, 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Utsav Gogirwar from Investec Capital Services. Thank you and over to you sir.

**Utsav Gogirwar:** Thanks Stanford. Good morning all, welcome to Q1 FY19 Earnings Conference Call of CanFin Homes Limited. To discuss the financial performance of CanFin Homes Limited and to address your queries we have with us today Mr. Sarada Kumar Hota - Managing Director of CanFin Homes, Mr. Shreekant Bhandiwad – Deputy Managing Director and Mr. Atanu Bagchi – CFO & DGM. I would now like to handover the call to Mr. Hota for his opening comments. Over to you, sir.

**Sarada Kumar Hota:** Good morning Utsav, good morning to all the investors and analysts who are logged in. The Q1 of current year has gone with reasonably okay growth, but in terms of the margins and the delinquency yes, there are issue. I would like to highlight few of the performance highlights of Q1, the positives as well as the negatives. The positives are; loan book surpassed Rs. 16,000 crore mark and we reached to Rs. 16,2000 close to. This has come when Karnataka is growing at single digit, that we have disclosed in our presentation that minus Karnataka the loan book growth is something around 23%. The sanctions and disbursements remain flattish but the new approvals as well as the disbursements in terms of quantum are higher compared to the last year Q1. When we disbursed Rs. 1164 crores during current quarter the outstanding has gone up by something like Rs. 456 crores, with this lesser disbursement compared to the last year, the outstanding had gone up by something like Rs. 500 crores. It means the run down is gradually it is increasing, and it is faster. One of the reasons maybe the balanced transfers that continues even though it is slower pace compared to the previous quarter, but it continues to be there. Another 3 years the loan book is growing and maturing, and the repayments normally received through the electronic modes on the repayment cycles of 15th and 20th of every month, that is has also seen a steady rise.

So, as far as collections improvement is concerned that is part of our strategic policy, some changes we have made in our collection system, that is centralized collection system follow up of the bounced cheques and from SMA zero level from 30 DPD, that has improved the collection. So, simultaneously the growth is yet to take place particularly in Karnataka, the very reason being the segment in which we operate, that segment is still muted because of supply side issues. There are, you build post RERA the big builders, the organized players, they are getting into affordable space, but going by the demand what lies in this territory the supply side is not yet fully serviced. Unless the players who were creating this sort of stock who are not big builders naturally whom we cater to, because going by CanFin's ticket size of average Rs. 18 lakhs which has come down to 17.8 now, the average ticket that we fund in the metros is something like Rs. 25 - Rs. 30 lakhs in that range and in the up-country locations it will be Rs. 10 - Rs. 12 lakhs. In this particular segment there are supply side issue still remains and many of those small players are now trying for tie-ups with the big builders and the sector is consolidating as far the builder community is concerned. So, things are on the path of improvement so coming quarters we can expect the better sanctions and better approvals and more the enquiries have increased, the demand remains very much there, only when it is matter of time that these new projects are to be launched or the stalled projects are to be re-commissioned jointly with the help of the big players, that is sort of consolidation taking place as far as the real estate industry down south is concerned.

Now coming to the margins, that is one more area where the cost has played significantly, compared to the stand alone cost of Q4 of last year, the cost of fund has gone up from 7.46 to 7.73 that is a jump of 27 basis points. This is practically, it was inevitable going by the macros and the market conditions because the market borrowings almost half of our borrowing's sourcing of funds are by way of market borrowing and half is in terms of the bank borrowing. The banks MCLR has increased, even though we enjoy the best of MCLR your company enjoys and the best of rates we enjoy from the banking as well as from the money market. But still then the overall impact will be there and the margins are shrinking primarily on account of that. Yields have also improved, the stand alone yield for the last quarter of last year that is Q4 of last year was 9.93%, that has increased by 14 bps to 10.07% now. But that was not adequate to really cover the increase in cost so the spread as well as the margin both have fallen by 12 basis points. For the last financial year, full financial year the margin was, the NIM was 3.53% but for the last quarter it was 3.38% that has reduced to 3.26 so precisely that will be 12 basis points dip in both the spread as well as the margin. That has impacted NII as well as you can see the impact in terms of the muted growth in PBT and PAT, so we have clocked the highest ever Q1 profits in terms of number that is Rs. 77.29 crores, Rs. 77.3 crores and even the PBT growth is Rs. 117 crores we have touched with 8% growth. But going by the record of CanFin I think the volumes are to play and going forward we are expecting that these numbers here on it should improve quarter-on-quarter.

A few strong positives are; now one more area of concern is the delinquency levels. The delinquency levels have, there is a Rs. 40 crores increase in terms of the gross NPA numbers. That Rs. 40 crores are primarily on account of the NPAs has been recognized those now or we have allowed those accounts. Even last year, we had given in our presentation that we allowed 373 accounts were marked for recovery involving Rs. 60 crores and SARFESI action was initiated. Why this shift in strategy is because 100% of my loan book is a setback, it is backed by mortgages. Once the security interest is created we want to knock off these assets when the things are getting worsened and it is always better instead of those 60 DPD cases continuously some account is staying in the 60 DPD category, we want to knock off those assets and realize the securities to recover our money so that the book is cleaned. Last year we took, 373 accounts involving Rs. 60 crores out of that in 27 accounts involving around Rs. 7 crores close to we sold off the assets. 120 accounts upgraded, 118 precisely involving Rs.18.7 cores were upgraded even before the sale of the properties. So, when it comes to the current year, there is a Rs. 40 crores net erosion in the gross NPAs from Rs. 67.49 crores to Rs. 107.30 crores. These involves slippage of something like it is 327 accounts involving something like Rs.47 crores, Rs. 7 crores has been recovered through auction and through **SARFESI 8.52** so net increase you are seeing is Rs. 40 crores. This Rs. 40 crores slippage is and 107 crores gross NPA, this involves something like 600 odd accounts, 631 accounts involving Rs.98 crores which has been where SARFESI action can be initiated and the remaining accounts are negligible smaller amounts. Out of these 631 accounts we have already invoked SARFESI and action has been taken in 514 cases remaining accounts we are giving some time and in due course action will be taken. These 514 accounts were SARFESI action has been initiated it will involve Rs. 85 crores out of the Rs. 107 crores and possession has already been taken in case of 126 accounts involving Rs. 42 crores and 13 accounts in Q1 itself we have sold the properties in 13 accounts. So, the company as a strategic shift in our asset management policy, we have taken a call to recognize the NPAs in Q1 itself and then work through the year to reduce the NPA levels, and we are confident that with 8 months still to go, the year end going forward every quarter end you will find that yes there is improvement in asset quality there is improvement in recovery percentages. And when this recovery comes the incomes will also be realized and the provisions also will be written back.

This quarter we have migrated to IndAS successfully and under IndAS against whatever was the requirement of provision as far the ECL model as well as for the NSB's directions that we cannot provide anything less than the NSB's direction. The company, this again was a decision taken by the management that yes, we will not write back. We are holding sufficiently adequate provisions much more than whatever was required under ECL or as per the NSB directives that is a statutory requirement. But we decided not to write back any amount of those provisions and that has been disclosed in our format point #2, in the notes you can see. Even the auditor has certified that, that we have decided to leave those provisions as a caution or a precaution we don't want to write back any provision. So, the profit amount that you are seeing is not much in divergence with the GAAP, because there is no impact of, there is a reduction only but there is neither the Q1of last year nor the Q1 of the current year is inflated by writing-back provisions. So, these are few positives, we are still in position to hold on to ROE of above 22. ROA transect close to 2, below 2 for the first time after so many quarters at 1.94% ROE is there. Capital adequacy is strong enough at 18.70 with Tier-1 of around quarter 2 2017. Average business and for branch as well as per employee is improving, strong positive for the first time, the company has brought down the cost income ratio to below 15 it is 14.5%. and that is because of improved productivity and as far as the growth part is concerned, as I told that we are not, the south territory that is home territory where we source almost 1/3rd of our business from Karnataka and around 16-17% further from Tamil Nadu, 15 % from Tamil Nadu. These percentages used to be much higher earlier, this has been brought down over the last 2-2.5 years, because our branch expansion policy in last 2.5 years, it has been only to the non-south Tier-1I, Tier-1II and Tier-1V cities, not in the metros. Because the earlier expansion was mostly in metros where we are finding strict competition from banks and because of the price war, CanFin is not a bank when the banks are enjoying less than 5.5% around 5 – 5.5% cost of funds. There is a clear difference of 2.5% between their cost of funds and our cost of funds. So, CanFin always comes at a premium, we are bound to come, price our products accordingly that being the basic premise now we are moving into the Tier-1I, Tier-1II cities and current year our branch expansion if you have seen, we have disclosed in the presentation most of the expansions are into those growth geographies, the growth centers which are in mostly Tier-1I and Tier-1II or Tier-1V cities. These are yielding results, those geographies are doing pretty well and going forward we expect that the amount of fresh business that we are sourcing, and this is one more piece of information that till 2 years back, till March 2016 the amount of fresh business we are sourcing from the south was 77%, that has dropped to 68%. From the non-south branches of whatever we were sourcing that was 23% that has gone up to 32% now, the fresh business. So, there are positives, there are very many, the strong point and the strongest point I see is that still we are the dominant player in south and now Karnataka is growing at single digit, once the growth returns, it will not be into the double digits gradually it will improve PAT to gross (+20%) growth rate. And that point in time CanFin will be in the best position, it is to well, the best position the company to capture that growth. So, we are pretty optimistic about the growth coming in quarters to come maybe it will happen in Q3, it may take a bit longer but there will be a gradual and consistent improvement here on, that will be visible in terms of the numbers in Q2 and Q3. Not withstanding that there will be impact of rise in cost, the rise in bond yields, the rise in MCLRs and tomorrow there is one more policy going by the macros, it is the macros really which is impacting both the cost as well as the delinquency rates mostly, it is not CanFin which is impacted as the only company.

So, these are the brief about from my side about the company from my side. Now I am open to, along with me, our DMD – Mr. Shreekant Bhandiwad and CFO – Mr. Atanu Bagchi both are there with me. We will be glad to take your questions and clarify any further points that you have. Thank you.

**Moderator:** Thank you very much sir. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Raunak Raichura from Asian Markets Securities. Please go ahead.

**Raunak Raichura:** Sir, so my questions are two of them. First one is, could I have the break up of the gross NPA from the salaried as well as the non-salaried segment?

**Sarada Kumar Hota:** Salaried, non-salaried we are yet to make an analysis like this. But by and large the delinquencies even though it is marginally higher in case of SCNP, there is not much so significant difference really, because SENP space as such earning to SENP even though that is growing but it is still significantly less, much less. We have not tried so really, we will certainly look into it.

**Raunak Raichura:** Sir then what is worry some is generally the salaried segment which is supposed to be a pretty steady cash flow-based segment, why would a salaried segment really show such significant jump in the NPAs. I mean if you are saying the differential between the two is not much, I would assume that both would be 0.66, so your average still comes to 0.66.

**Sarada Kumar Hota:** Yes there is a difference, certainly, I agree with you that always the salaried space we will have better asset quality compared to the non-salaried, that is right. Usually going by the theory, it works but normally the delinquencies in case of housing loans we have seen is, see even if the SCNP there is a delinquency those are primarily based out of some reason so that either things are not doing well or the business is not going that good. So, PAT has got an impact on the macro-economic conditions, the growth and things as in all these have got impact on the recommend behavior. Post de-monetization I still stand by my earlier statement that post de-monetization when the two months of lever was given that not to be paid and all the 3 EMIs where met due in January 2017, of November and December. We collected in case of all the cases because it comes through NAS but there will be few who will tend to default because there must have been a waiver or that you may not pay for these two months. Because people find always alternate ways, alternate avenues otherwise nobody wants to really likes to default in home loan EMI. In our country it is dear to and normally people don't unless there is a pressing reason. So, there are rising delinquencies not only in CanFin you will be witnessing in all the results those have come so far.

**Raunak Raichura:** Yes sir, my other point being about 72% of our business still comes from Karnataka or the south region rather. So, my other point is you know, I had read an article where in they are saying that since Karnataka has got quite a lot of projects which are not complied with the RERA, they have got so many…..so is our gross NPA more to do with the half completed projects because then what will happen is these NPAs will actually remain. If the project only doesn't get completed and we have funded those people, then it is more likely that these gross NPAs are not related just to the repayment of an EMI but it is because of the non-completion of the project. So, I would want to……

**Sarada Kumar Hota:** No, I would like to clarify, yes CanFin doesn't give in any incomplete project and we really don't have much of this TPA funding as such and unless the project is in last mile we don't engage in on unless the structure is physical. So, that issue is not there in CanFin, you can rest assured.

**Moderator:** Thank you. Then next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.

**Bunty Chawla:** As you said loan book ex-Karnataka has been 23% and because of this Karnataka issue, the loan growth has been declining to 17% kind of a thing. So, what issues are facing we are specifically in Karnataka as a state?

**Sarada Kumar Hota:** The number of projects those are catering to the new launches in our segment is almost it has come to almost now it is done. Only now the players are, the big players, the organizes players are getting into affordable space because the average ticket size that you are getting from the big builders you take any big name, they cater to mostly the MIG and SIG segments not to the affordable. Now only they are getting into affordable space, post RERA and with RERA what has happened is, RERA is the best consumer unlike the home buyer's protection forum. All of adjudication so far and in favor of, always is favor of the home buyers, that confidence. So, the customer confidence, investor confidence has gone up, people are willing to buy but you think of a guy who earns Rs. 50, 000 income per month, he comes with in that MIG I or LIG of our segment. He is entitled to a loan of Rs. 25 lakhs. Then what sort of property can he buy? It can be only in that Rs. 30-Rs. 32-Rs. 35 lakh range because he can't afford the equity. So, in that space how many projects are coming and which are ready for delivery. Another thing is there is a shift in, because of all these hassles around the people are willing to really go for ready to move in property. So, people are waiting, demand very much remain there. The population of Bangalore or Chennai is not coming down. It is increasing only not to worry as far as demand party comes is. Demand remains very good it is an accumulated demand when it comes the growth will accrue to CanFin only.

**Bunty Chawla:** So, you can say the supply side constrain we are facing in Karnataka.

**Sarada Kumar Hota:** It is the supply side constrain, primarily supply side constrain. It is always visible, if you scan the market and if you console it any big player, yes. Now the number of players those were operating in this particular space that has really contracted significantly. And with the number of players in RERA raising who are constructing whoever is coming up with new projects or trying to address the supply side issue. So, I think their number is too inadequate to really cater to the demand.

**Bunty Chawla:** So, with this supply side issue constrain remaining and new developers are coming to the picture? So, it will at least 6-9 months or can we say at least 12 months it will take to this issue to clear out, so the demand picks up?

**Sarada Kumar Hota:** This will keep on improving, this improvement is visible elsewhere where you are getting a property in the prices of Rs. 25-Rs.35 lakhs. We have seen the growth, it has returned back. You go to Andhra Telengana, you go to north, into the west all these places there are adequate projects coming up in those ranges, where as in Bangalore I think it will take little more time. It is a matter of time sir, but every quarter every ensuing quarter will be a better quarter, because now we will be working towards development progress, new projects will come up again nobody is going to stall those projects.

**Bunty Chawla:** So, in that case could we have some risk on our guidance of 24% growth for FY19 because of this Karnataka issue?

**Sarada Kumar Hota:** There is a risk to that for us only, but we are working also, if you have seen our branch expansion policy, there you would have seen that yes we are pretty aggressive on expansion and as far as the company's non-housing loan book is concerned there, whatever marginal increase you are seeing that is mostly into the, we are getting into the RERA complied builder segment also, small tickets particularly who are creating stocks in out segments. So, government is doing its bit, the government is concerned and they are doing their best to bring back those builders for the small projects. Simultaneously we too have a job to help in the creation of those stocks, because ultimately my book depends on the development in my home terrain even though I am growing in the non-known geographies that won't take care of the growth rates that we are expecting in CanFin.

**Bunty Chawla:** Right.

**Sarada Kumar Hota:** So, somewhere we will try to cover up that.

**Bunty Chawla:** Now the second part on the margin front. This quarter we have seen a huge decline in the margins as such so, already we have taken the price hike during this quarter so what will be margin guidance for the next two quarters or for the full year as such?

**Sarada Kumar Hota:** Going forward the marginal cost is coming to play. That will come to play for sure but one thing is as I told you in my opening remarks there is a 27 bps increase in the cost of funds compared to the Q4 of last year. If you see the quarter first stand alone, for the year we had a cost of funds of 7.70 but only for Q4 if you take it was 7.46%.

**Bunty Chawla:** 7.?

**Sarada Kumar Hota:** That has increased to 7.73, 27 bps increase in the cost of funds.

**Bunty Chawla:** Okay quarter-on-quarter basis.

**Sarada Kumar Hota:** Yes, from Q4 to Q1 of current year. We have not been in a position to pass on in entire because one is competition, another one is if I try to pass on the entire, I will lose the loan book, so we have got the annual resetting that is really helping us. So, 14 basis points has been **passed 26.29** on still we have taken a hit of 12 basis points both in spread as well as the margins. So, the margins if you can tell me what will be the policy raised tomorrow, I can say really, we always presume we are also having the same presence and support, how the rate of interest moving and it will have an impact not only on CanFin and all the entire NBFC.

**Bunty Chawla:** Sir, for assumption if we take this kind of NCDs or bond market or G-Secs remains at this level because it seems to be the market is already assuming the rate hike of 25 bps so in the NCDs or in the bonds already that has been placed, so if these levels continues so, can this 12bps hit could be passed on to the clients or we need to watch and for this?

**Sarada Kumar Hota:** We need not watch we had increased, I had passed on 40 bps in the Q1 itself on 1st of April, if you remember?

**Bunty Chawla:** Yes.

**Sarada Kumar Hota:** But the impact of that will come gradually, every month a part of our loan will keep on getting repriced. Now another thing is we will have to watch what the banks and other financial institutions are doing. Because you need to be relevant in the market otherwise your loan book will vanish. So, we wish that if there is a further increase in rise in the rates the banks will also increase their marginal costs and their housing loans will be priced a bit higher. In that case maybe we will be in a position to pass on. You can't maintain a huge differential between the market rate and CanFin's rate.

**Moderator:** Thank you. Then next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

**Shreepal Doshi:** Rohan here from Equirus Securities. Sir, I would like to get your perspective, like the rate hike that we have taken during the Q1 so what percentage of the portfolio would have seen the resizing and what is expected over the course of FY19 in Q2 and Q3?

**Sarada Kumar Hota:** I didn't get you. During…...?

**Rohan:** Sir, as I understand the loans that we have, in the last year we had done a one-year repricing, reset where in a home buyer has the rating profile improved the rates would get repriced at whenever they come up for a renewal at the end of the year. So, the price hike that we have taken during the Q1 so what apportion of our existing loan book got repriced upwards and going ahead like what is expected in Q2 and Q3?

**Sarada Kumar Hota:** Yes, if you see my last year's total increase, last year we had given loans, the total disbursements during the year for March 2018 FY18, going by that quantum, you can thing that some Rs. 5200 crores were the new disbursements, means that Rs. 5200 crores will entirely come for reprising during the year, that apart the people who had opted for the annual reset that will be around maybe some close to 14,000 loans or so, I remember, precisely that sort of numbers it was. which has come for repricing in the month of April itself. So, by the year end almost the entire portfolio will get repriced gradually leaving that Rs. 5207 crores loan given during last year which will come for repricing gradually every month end.

**Rohan:** Okay so whatever was the outstanding loans on books and at the start of the previous financial year, all of that has seen a repricing with the price hike in April, that would be correct?

**Sarada Kumar Hota:** You can take it like this in FY18 we disbursed Rs. 5200 crores worth loans, new disbursements. So, those loans or Rs. 5700 crores new loans were sanctioned. All those loans if those were granted in different months they will come every month for repricing upwards. If the rate of interest is present rate or at that point in time whatever is the rate prevailing then it will be priced to those rates.

**Rohan:** Sure.

**Sarada Kumar Hota:** By in that the rest of the portfolio has got repriced.

**Rohan:** Okay so the rest of the portfolio has seen a repricing. And sir can I get the outstanding borrowing number at the end of the quarter?

**Sarada Kumar Hota:** Outstanding borrowing?

**Rohan:** Yes total amount. We have in the presentation chart where it is given is percentage terms but the total amount is not there.

**Sarada Kumar Hota:** That you can always arrive at that, because other than, because we don't keep any surplus, we borrow always based on our borrowings will be always matched to our requirements so you can take the loan book from that you can reduce reserves you will get the borrowing.

**Rohan:** And sir, lastly with respect to our properties that we have sold during the quarter after invoking SARFESI so did we have any hair-cuts on those or did we have to take some losses on those or we were able to recover the complete amount of tangible as well as the accumulated interest?

**Sarada Kumar Hota:** Yes one thing very good about CanFin is that at least LTV we have been in a position to hold on to and CanFin doesn't encourage really balanced transfers in.

**Rohan:** Right.

**Sarada Kumar Hota:** So, that way CanFin is in a comfortable position and it has not been in it.

**Rohan:** Okay so it would be fair to assume that there were no losses on the sold properties.

**Sarada Kumar Hota:** Yes, we don't have really those issues what you are facing in case of NCLT cases. It is not there, not to worry about it.

**Rohan:** Lastly, what we understand is that some of the larger housing finance players were also giving loans to real estate developers so, they also at times enter into contracts where in they would have the first right on the home loans that would get sanctioned. So, just trying to understand if the new projects that is coming up which are coming up from the formal category of builders if they also get into some kind of an arrangement with the housing finance companies who would have given them developers loans. So, how would we look to penetrate that market given that we only give loans at the state and the projects where in the house is almost complete. So, would we be able to get a market share in those kind of projects, what is your thought process on that?

**Sarada Kumar Hota:** Yes, we are evaluating that side and we have certain tie-ups as well, but we are not into tie-ups in such projects where the end product is not CanFin type. It means if the ticket size is higher and the unit cost is higher then we are not getting into such projects because even if I threw a tie-up I find that loan will be there in my books maybe for 6 months, 9 months or 1 year and after completion they will exit CanFin loan book. So, we will end off really remaining a surrogate mother creating those loans and somebody else taking over. So, that is why what we have restricted to is, we have restricted to our own niche-segment of those builders in LIG and MIG I stage, not beyond that. Not many are there in that but so far CanFin had never engaged in the TPA funding based on a tri-party agreement, now that RERA has come into play yes we are looking that well as option but we are careful about, in the sense, management policy itself prohibits of funding of 100% in any project. We don't want to take a concentration risk, we are already really paying a price of all those in the lending and running behind those growth in terms of delinquency that you are witnessing right now.

**Rohan:** Sure sir, sorry to come back to the question with respect to the resizing of the portfolio. As you indicated that the loans which other than the 5800 crores everything would have got repaid so the 14 basis points increase on yield seems to be on a lower side, because the kind of increase that we have taken in lending rates that is on a much higher side. So, just trying to……

**Sarada Kumar Hota:** It is not so because there will be some loans which we are really not repriced because the borrower had never approached you. Such cases also, because you need to be fair with the borrower as well and there are many cases in many of the asses you will find that there will be accounts who are continuing to pay 12%, 14% rate of interest. But what happens is one fine day when they come it will give rise to issues and complaints only and balance transfers. So, you need to be fair as far as the customers are concerned. So, there are both ways it is not that the portfolio was repriced and every loan was repriced at a higher rate. Not that the entire portfolio was at 8.5% we made it 8.45% so there is 45 bps increase all across. You can't work out that ways.

**Rohan:** What percentage of our loans are on fixed rates right now and what is on floating?

**Sarada Kumar Hota:** Most of our loans are floating only because the fixed rate loans are except for those loans given under the rural housing fund or the urban housing fund around 12% rest all are floating.

**Rohan:** So, in that case the repricing should have happened, right on the floating loans?

**Sarada Kumar Hota:** In those 12% you cannot reprice because the borrowings are at a specific cost…..

**Rohan:** Not the ones which are re-financed but other than that whatever is on floating rates, that thing should re-price when we are announcing the new rates. If they had not moved into a one-year kind of a lock in.

**Sarada Kumar Hota:** Yes fine if the rate of interest was those numbers whatever you were telling suppose the entire portfolio was at 8.5% I would not be doing a yield of 11% as in March 2017. So, there were some loans if you are still getting higher rates and the borrowers were leaving us even those cases you have repriced. On repricing those are repriced at a cheaper rate, that is what I am telling. Not that the entire portfolio was at 8.5%.

**Rohan:** Yes, sir agreed. Got it.

**Moderator:** Thank you. Then next question is from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

**Nishchint Chawathe:** My question pertains to your provisioning policy, so I believe that you have continued with the current outstanding provisions on the balance sheet and the ECL that you need to carry as per the new norms is actually lower than the provisioning, lower than the outstanding provisions. So, if you could give us the quantum of provisions and ECLs and some break-up of ECL between stage I, stage II, stage III and till your ECL becomes equivalent to provisions does it mean that there is not going to be any provisioning it on the P&L?

**Sarada Kumar Hota:** No, as far as provisioning is concerned my requirement as per the statutory requirement was something like, first thing I would like to tell you that we are holding adequate surplus. Adequate surplus in the sense it is at a substantially high rate maybe with the growth rates those who are expecting we may not require going forward either on the statutory or under ECL. Last year also that is why we had not provided anything under standard asset as far as the substandard and doubtful and under ECL total that has been worked out, the provision requirements that is Rs. 5 crores higher than the statutory requirement but over and above that we are holding almost more than Rs. 20 crores of surplus and the total provision we are holding is 100.63 crore under for the portfolio of Rs. 16200 crores. So, the company has adequately provided for the portfolio it doesn't require much. We may do surplus as per the policy as and when we decide. But I think it doesn't warrant. Because going forward we are quite hopeful that this gross NPA will come down from here, it will not increase, because once we invoke SARFESI the resolutions are much faster. So, unlike any other those NPAs, because 100% is asset backed. That is why you can always expect that the provisions will run surplus only but till then as an abundant precaution we have decided not to write back any. That is the decision the Board has taken and the…..

**Nishchint Chawathe:** So, basically what you are saying is that ECL requirement should be approximately Rs. 80 odd crores and you are currently having around Rs. 100 odd crores in the balance sheet and which is I guess….

**Sarada Kumar Hota:** Yes, precisely.

**Nishchint Chawathe:** And now till, so how do you kind of forecast provisioning numbers going forward? Would you say that look we require 80 and we have 100 so one quarter it could be 75 the other quarter it will be 85 so unless and until it is hitting hundred we will not make any provisions on the P&L going forward?

**Sarada Kumar Hota:** It is not so we will take a call. We will take a call looking at the person, if at all an account is in case of a mortgage-based asset if you just for the sake of lay it into the provision if you give maybe we will take provisions to the extent that I am getting a tax benefit out of that. That is the 5% of the taxable operating income.

**Nishchint Chawathe:** So, it would kind of provisioning policy because you are sitting on a buffer would kind of sort of little bit more subjective going forward I think that is the way I should read it.

**Sarada Kumar Hota:** Because ultimately what happens is the money that you are providing for it is not that it is anyway helping you out whereas that money really goes back to your capital, now if you see my debt income has come down to 10.03 capital is costly. So, let us not look at the quarter end what is more precise is because you can use this money only at the year-end once it is audited. That point in time we will take a call that is there really some threat in some accounts we are keeping it fully provided all stage three accounts are 100% provided not to worry at all and even though in those accounts we are getting recovery and I will tell you one more thing is in those accounts which are previously technical written off for knock off on the books in those accounts we are getting recovery, that will add directly to the income.

**Nishchint Chawathe:** So, basically you are saying that the entire NPL amount is kind of audit for in the balance if I can do the math's should be stage one and stage two provisions.

**Sarada Kumar Hota:** I did not say that because I told this stage one, stage two and stage three if you take the stage three accounts were more fully provided not stage one and stage two fully provided. Not really, there is no need that why you should provide 100%, last year itself we changed our stance that not to get real net NPA zero there is no point because I do not get a tax benefit. I get tax benefit only up to a limited extent. So, this will be a sort of tax planning and as far as provision is concerned company will adequately provided it we are not for the sake of posting 0% net NPA doesn't make any economic sense.

**Moderator:** Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta:** Sir my first question is that, now you have not been growing so fast, loan growth has been a bit tepid over the past you said that Karnataka problems have not yet improved fully. So, our fund-raising plans A is there any need of raising capital at this point of time when ROEs are much higher than our growth rate for the next few quarters as well and B what will be the mode of fund raising because our stock price is definitely depressed so if we do QIP we would be diluting at a much lower price. So, what is the thinking around the mode of fund raising of this 1000 crores because that is a very substantial amount compared to our net worth.

**Sarada Kumar Hota:** Two points I would like to clear Gupta. First thing is yes I am on this same page as you that company is not going to really raise capital when things are not fine the permission that we have taken from the AGM for QIP now last year we have taken a permission for QIP for right issue for that board was empowered because there is no dilution involved now we have taken another option of QIP and Pref shares that required a permission from the members in the AGM. I can go for one more AGM to take that permission so to hold that permission only it is a you can take it as enabling clause that we have taken the permission. Another thing is the 1000 crores, it is not 1000 crores it is up to 1000 crores so in case when growth returns we should not be running around for the permissions and holding an AGM and taking a call whether it will be through rights or whether it will be through QIP at appropriate time we will take a call and we are not hitting the market immediately we will look at the valuation certainly what is good for the company management will take that decision.

**Sarvesh Gupta:** Secondly on your NHB funding that has come down a lot as a portion of your overall funding. So, given that, that is generally much lower cost of funding is there any way to kind of –spruce it up to lower down our cost of funding.

**Sarada Kumar Hota:** We are waiting for NHB to really come out with those funds and money in the rural housing and urban housing fund. I think there are something even NHB is recently their statements and all that we find that once a new fund comes we hear about new fund coming maybe we will get again, now those rural housing and urban housing funds last one year, one and a half year we at least we have not faced anything. And the normal route their cost of funds are equivalent to or higher than the bank.

**Sarvesh Gupta:** So, there is no real benefit of us through an increase in our NGB funding in our finding mix.

**Sarada Kumar Hota:** Not as of now if those cheaper funds are not available we are not because their usual rates are alike to any other bank, any other market borrowing because for them also source is banks and market only. So, if there is any specific directed fund like RHF for UHF we are okay, that is why we have distanced with those two products as well we have stopped our lending under those two products because we are not getting money.

**Sarvesh Gupta:** Understood. And sir Tamil Nadu's problems are similar to Karnataka's is that a right thing.

**Sarada Kumar Hota:** These are different issues, this is partly similar partly different Tamil Nadu hit bad year in FY17 and even in FY18, they are recovering but the process is dam slow. I think it will take some time for them, but the supply TAT issue remains in both the places there are some very strong positives in Tamil Nadu in terms of the online portal for plan approvals and all those things. You are getting at least small ticket and there are other than Chennai there is Coimbatore, Madurai, Trichy Salem some which are growing. In Karnataka the growth is Bangalore centric mostly that is really hurting.

**Sarvesh Gupta:** So, the overall growth rate in our loan book for Tamil Nadu and Karnataka are similar?

**Sarada Kumar Hota:** No growth rate of Tamil Nadu is better they are into double digit not in single digit.

**Moderator:** Thank you. The next question is from the line of Rakesh Jain from Jasper Capital. Please go ahead.

**Rakesh Jain:** Actually, what is your plan on opening of new branches and what are the areas that you are targeting on.

**Sarada Kumar Hota:** Sir I have given in my last slide if you have seen 20 branches we planned for current year, we opened so far 15 those are Haridwar, Rajkot, Jamnagar, Bhavnagar, Bhimavaram, Kadapa, Sidki, Nizamabad, Jhansi Sagar in MP, Reva will be open shortly, Aurangabad, Chakan, Kolhapur in Maharashtra and Hinjewadi in Wockhardt we are opening one more branch, Alwar Rajasthan I was there last week to open a branch on 20th July two weeks back, Jalandhar Punjab we have opened a branch yesterday. The new branches we are opening are mostly in Non-South Mumbai out of Karnataka and Tamil Nadu.

**Rakesh Jain:** Any specific locations in South that you are targeting more?

**Sarada Kumar Hota:** Bannerghatta road, Bangalore we are opening a branch maybe in a week's time the branch will be ready, and we will be opening that, that is one branch earlier there was a satellite office we are upgrading to full-fledged bank.

**Rakesh Jain:** And one more thing the asset that you have repossessed how is the process that you follow for re utilizing cash from it and how much is the amount for the quarter.

**Sarada Kumar Hota:** Repossessed asset really we do not recommend its regional but the thing is what I told you is out of 100, 7 crores of NPA, 85 crores that is involving 514 accounts we have already involved SARFAESI its at different stages. During the quarter itself we have already auctioned certain properties we have sold, and another around 226 properties involving 42 Crore already possessions have been taken means either symbolic or physical possession has been taken. The process is like this first you have to issue a notice under SARFAESI that fixed motive after that you can go and take symbolic possession and give the paper notifications. After that you have to apply to the CMM Court, Chief Metropolitan Magistrate for physical possession. Once you take a physical possession you have to go through the auction process by giving the reserve price. Now we have got tie ups with some portals as well for getting better valuations and for quick disposal of those properties. It takes a bit of time maybe two months' notice period itself is there, three fourth of the loans really gets resolved before a real outcome. Once you receive an action under SARFAESI that is what our experience of last year. Last year same issues were there, instead of getting one account in 50 DPD persistently and deploying your entire force into that we have taken a call that we will invoke SARFAESI because that is why we are a mortgage bank. Mortgage is there why not, if your security interest has been created invoke that security interest under SARFAESI and sell the property that is the best way to get rid of the accounts.

**Rakesh Jain:** So, how much amount you said around 5 to 6 crores that you have realized for this quarter.

**Sarada Kumar Hota:** During this quarter?

**Rakesh Jain:** Yes.

**Sarada Kumar Hota:** No during this quarter the recovery is more than 7 crores, because there is slippage of 47 crores more than 7 crores has been realized that is why the net increase you are seeing is 40 crores. In that 40 crores that involves some 327 accounts. Out of that already SARFAESI action has been initiated in most of the accounts, remaining accounts also so it will be taken and out of 107 crores total NPA that you are seeing gross NPA out of that 85 crores 514 accounts already action has been initiated it is at different stages. So, the resolution will be, some will be in this quarter, some will be in the next quarter.

**Moderator:** Thank you. The next question is from the line of PV Bhattad from Aditya Investments. Please go ahead.

**PV Bhattad:** Sir my question is once again related to these 600-odd tickets which you are trying to resolve this year. Is it safe to assume that these tickets will be resolved, or these issues will be resolved in this financial year itself?

**Sarada Kumar Hota:** Yes we are strongly hopeful that this would be cleared before March because still I am having 8 months times to go, many a times you need to go for second option and third option if you are not getting a suitable bid but in that adequate time is available and there is a special task force which is put on this job, each of those branches we have got recovery team who are working on that.

**PV Bhattad:** And as you said there won't be any losses on these accounts.

**Sarada Kumar Hota:** No, not in CanFin book. That issue is not there and last year I told you our experience of last year it encourages us because last year first quarter also I was questioned why so much of slippages but 373 accounts we marked for recovery in one quarter amount into 60 crores, out of that 27 accounts we required to sell amounting to 7 crores that was last financial year full whereas 118 accounts were operated out rightly and remaining accounts maybe there are spill overs because if you remember last year the major jump was in Q3 and Q4 only mostly in Q4. Delinquencies are rising but not to worry when it comes to housing financing company like CanFin because we have been fairly holding on to our LTV so you this goes at a discount….

**PV Bhattad:** Sir in this last five quarters our NPA is substantially increased so is it fair to assume that now henceforth same will be the level of NPAs?

**Sarada Kumar Hota:** Slippages do not worry me at all as long as there are resolutions you are on to. If there are 10 accounts added you need to invoke SARFAESI in 10 accounts run for recovery and realize. As long as you are lending, you are leaving, if the institution is alive it will keep on lending and if we keep on lending there will be delinquencies, there will be some slippages that is mostly related to the macro situations, the comfort of the people, the earning levels of people and the job level of people whether somebody is getting a job or somebody is getting fired, how the SMEs are doing, how the salaried space is doing it depends on all those. As long as securities are intact and you have not really diluted the value of security by giving so much of top up or by balance transfer from other companies. Fortunately, CanFins loan book is home grown loan book, it is not a borrowed loan book, so we are confident about that. I never worry about really the rising NPA.

**PV Bhattad:** Okay sir. Sir my next question is about Karnataka and Tamil Nadu market. Is it safe to assume that the markets are bottomed out henceforth we will only see improvement in this market?

**Sarada Kumar Hota:** It is not bottomed out I will say that the improvements have set in. So, now because already from the government side also lot of initiatives. You can see now the big player is getting into this affordable space, who have never constructing property in this space. But certainly, those builders who were in the informal segment who are building those properties and delivering if they were supplying a property at 25 lakhs maybe when a big builder constructs that will go for 30 lakhs but the borrower is comfortable if you charge 5 lakhs more, but you certify that things are fine. What is worrisome here is the notices given to so many under construction projects. Once those projects are released they will find ways having invested money it is not that those projects are not going to be completed which are stalled now. It is 900 and odd projects you can go to the Karnataka RERA site and you will find which are put on the notice in last quarter, last few months. So, those sorts of builder, who were supposed to be reined in and simultaneously government's initiative is those guys are really getting into some tie up with big builders and trying to complete those projects and deliver. Maybe the cost will go up in those cases by few lakhs, but the thing is buyer is always comfortable even if you charge few bucks more but if it is a complied one. So, supply side will be addressed, it is not that somebody has to launch a new project now, even the stalled projects once those are completed the supply side issues will be addressed. Now the big builders are helping out the small builders in completion of those projects and there is a sort of consolidation taking place in the builder segment as well. Henceforth, every quarter you will see positive, when we will get back to the normal rate it may be in Q3, it may be in Q4 or it may take one or two quarters more.

**PV Bhattad:** Okay. Some of the players are heavily complaining that they are facing the poaching a lot, are we seeing some poaching for our customers?

**Sarada Kumar Hota:** What is that sir I did not get you poaching?

**PV Bhattad:** Yes.

**Sarada Kumar Hota:** Yes last year itself we have witnessed so huge poaching, even current quarter it is there that is why we brought in the annual reset mode. The annual reset was just to protect that poaching because that is obvious once banks are getting into housing space in such aggressive manner earlier as a banker I know very well that we were restricting to MIG or SIG segment, but now they are getting into affordable space because huge funds are there, credit pickup is not there in other segments and the corporate loans are not picking up and competition is really huge in this space now that competition is driving us as well to go to those Tier-2, Tier-3 and Tier-3 cities and reduce our housing loan ticket size. It is not that four years back also if you see CanFin's presentation average ticket price was 18 lakhs even today it is 18 lakhs, it means that already we are being post into a different territory.

**PV Bhattad:** Are we comfortable with this competition?

**Sarada Kumar Hota:** Yes, you need to be comfortable and find your own ways that is why you have seen my branch expansion strategy. Either you can fight competition, but you cannot flex muscle with 7.73% cost of funds when the banks are enjoying 5.5% or less than 5.5% most of the banks, most of the banks are having those cost of fund. Because they have got CASA and we do not have so you are not at par there is a clear 2.5% variance in the sourcing cost itself.

**PV Bhattad:** Okay. And sir lastly, looking at this quarter is the target of 19,500 by year end is achievable or you are going to reset it?

**Sarada Kumar Hota:** Let us wait and see sir because we are deploying some other mode that is what I told you that now we have opened 20 branches in other geographies those are growth geographies itself. In South when things are not doing fine I have deployed my entire force into cleaning up the book as well as getting into some of those non-conventional financing where we used to lend only into individual housing now we are getting into small ticket builder loans. So, maybe we will be in a position, but I will wait for a quarter and then I will comment on that, if there is a revision we will give you the revision in the guidance.

**Moderator:** Thank you. The next question is from the line of Keshav Harlalka from BHH Securities. Please go ahead.

**Keshav Harlalka:** Sir this is I was just going through the conversation and what we are saying is, we are clearly saying that our cost of funds is 250-basis higher than the banks and we are facing competition and poaching and there are so many things happening over here there plus the delinquencies have gone up in this quarter. So, my suggestion is five months back we are right now end of July 2018, five months back we were sitting on an open offer by bearings at 570 and right now the price is 330 which is like a 40% discount to 570 so don't you think Canara Bank should revisit selling a stake or selling their stake so that everybody is benefited over here it is just a suggestion from my side sir. It is a food for thought for you I would want your comments on it.

**Sarada Kumar Hota:** I think this is a question to a wrong person, sitting as CanFin management I am not in a position to really answer that question. But certainly I will say that yes it is always time to really dissect it.

**Keshav Harlalka:** It is time to revisit sir because the market has clearly given you 40% lower than what was the valuation which you were getting which all of us think. We were getting an exit at 570 and here the price is 40% lower so my sense is, it is time to revisit and just have a rethink on the valuations because what was sighted was that they were not comfortable with the valuation being offered.

**Atanu Bagchi:** The question is to the wrong guy, if you can ask me that yes what the management has to do from CanFin to improve the valuations. I wish there is one point the sector has corrected, the sector index is corrected really, and another thing is what good we need to do to correct CanFin Homes valuation to improve CanFin Homes valuations if you can give me some tips really I will be interested in that.

**Keshav Harlalka:** Because you also had offer from HDFC Limited which is the housing sector giant where the valuations, I am just that you could carry my voice to the management of Canara Bank I will be grateful.

**Sarada Kumar Hota:** CanFin management will not carry it nor CanFin management will indulge in that.

**Moderator:** Thank you. The next question is from the line of Siddhart Bhotika from ITI Long Short Equity. Please go head.

**Siddhart Bhotika:** Just wanted to understand what is the proportion of CP book in our overall borrowings.

**Sarada Kumar Hota:** Sir it is always less than 20% we have maintained it below 20% always because that is the approximate 17-18% is the annual cash flows during the year so we keep always within one year cash flow so we do not go beyond that.

**Siddhart Bhotika:** The duration of the CP book will be less than three months?

**Sarada Kumar Hota:** No we do not borrow really so short-term, mostly it will be long. That you can get from all our past borrowing records you can pull it down.

**Siddhart Bhotika:** Sir another question that I had was, 10.07 is the book yield right now. But what is the incremental lead on advances that on a blended basis that we are getting for new loans.

**Sarada Kumar Hota:** Blended basis it starts with 8.95% that is the lowest, I have to wait and find out I have not made that study really.

**Siddhart Bhotika:** 8.95 plus 50 basis points what for self-employed right.

**Sarada Kumar Hota:** For self-employed there is a markup, for risk categorization also there is a markup. For the medium risk loans, it comes at a markup that is only for housing loan and non-housing loans are differently product priced.

**Siddhart Bhotika:** Is it fair to assume a number around 9.5.

**Sarada Kumar Hota:** No. I suppose because last quarter I told you it was 9.93 was the yield for quarter four and now it is 10.07 so you can reduce the marginal yield and marginal cost both.

**Moderator:** Thank you. The next question is from the line of Omkar Kulkarni an Individual Investor. Please go ahead.

**Omkar Kulkarni:** My question was regarding can you segregate in case like what would be the NPA ex-South region.

**Sarada Kumar Hota:** I do not have those data right now but always in the old branches it will be a bit higher and in the new branches it won’t be there it will like that. I do not have that number ready that I can share with you.

**Omkar Kulkarni:** Yes, you were sharing another thing?

**Sarada Kumar Hota:** The growth number we have studied because on daily basis we keep tracking how is the geography doing, how is the branch doing so that is why I told you.

**Omkar Kulkarni:** But it will be certainly higher than the 0.66 right?

**Sarada Kumar Hota:** I cannot comment on that without the numbers I don't think we are ready to comment on that. It is not that suppose without geography delinquencies are originally lower compared to other territory.

**Moderator:** Thank You. Next question is from the line of Raunak Raichura from Asian Markets Securities. Please go ahead.

**Raunak Raichura:** Sir my other point was, the Bangalore region recently has seen a very significant rise in the sales actually. So, I wanted to know we do not focus on the main Bangalore region, we just focus on regions outside Bangalore is it, because Bangalore has seen a significant jump in the sales.

**Sarada Kumar Hota:** Yes, Bangalore has seen a jump in the sales particularly in the formal segment of properties that is in the MIG and SIG segment because if you remember CLSS for the MIG segment the criteria of the area norm was relaxed twice. It was increased, now even somebody is buying a property 2000 square feet plus property carpet area not super build up, even then he is entitled to that 2.5 lakhs or 2.63 lakhs of subvention. So, unfortunately, they are not the clients of CanFin because they will not come to CanFin at this cost when you have the product available elsewhere at a much cheaper rate, so they are clients of the bank not of CanFin. CanFin caters to, I told you the ticket size of 30-35 lakhs max that is the average. To get into that space we will be just creating the loans but those loans will not stay with us those will be transferred, once the property is ready the guy will shift to another bank only where the cost is cheaper because the EMI differential will be much higher.

**Raunak Raichura:** Okay. One other thing, so then what will drive this ROA going back to the original levels I understand we are little premiumised in terms of our loans as compared to the banks and other large HFCs because what I was thinking was our loan yields on the housing which is 90% of our portfolio is about 8.95% and our cost of funds are about 7.73 which is what you mentioned which gives us a very little spread from the book if I consider from today, correct.

**Sarada Kumar Hota:** The yield is 10.07 and the cost is 7.73 till we enjoy this period of 2.35%.

**Raunak Raichura:** Right. What I understand, I am just saying that from today if I have to count then what would be the case for example the housing yields as of today is about 8.95% if I am not mistaken.

**Sarada Kumar Hota:** That is the base rate that I offer, it is not my yield. My yield is 10.07 with less than 10% coming from non-housing so less than 10% from non-housing means clearly you can presume that still

I sell home loans that is something like 9.5% or more than 9.5% I have got still a portfolio otherwise it won't come to 10.07. What will impact the margins and ROE going forward is, one thing is realization from the NPAs if we can resolve those and we are pretty hopeful that it can be resolved before the yearend that is one, but the slippages if the macros remain like this and the cost of fund the scenario remains like this there will be a continued preferable margins we need to work against that continuously and we need to keep on evolving. So, that is all the company is trying to tweak, it is asset mix a bit more of high yielding assets under either non-housing but on a very calculated and calibrated way.

**Raunak Raichura:** Sir two points here since you have just mentioned this, one is sir since we have not made any provisions as such so how will the recovery in the NPAs has really drive our ROA that is one and the second is, I completely agree with you that our loan mix has got to shift more towards the high yielding loans in which case do we have a conscious strategy to achieve a particular percentage of let say nom-housing book or particular percentage of non-salaried segment which is generally high yielding thing?

**Sarada Kumar Hota:** We have already seen there is a gradual shift in loans we are sourcing from salaried and non-salaried it has grown from last year June it was something like 25.2% under SENP of the outstanding loan book that has gone to 27.1% now. From 75% in June '17 it has come down to 73% now so there is a very gradual and slow and steady increase we are doing we do not want to really get into SENP space or do a drastic change in the composition of our loan book. Still we remain the darling of salaried and the salaried space is going to come back once supply side is addressed. This is momentary and temporary phenomena but our focus on SENP now the more we mature and learn I think our people are comfortable with underwriting a loan to SENPs and we are doing good, there is not an issue really. Same thing with NHL under non housing we have got very limited products right now because CanFin does not do the LAP the way many HSFCs they do, but our LAPs are based on cash flows those average ticket size is 8 lakhs, the non-housing loan portfolio of 10%-5% is LAP that is mortgage loans even all those mortgage loans these are backed by the cash flows somebody's child is going abroad for doing MS or somebody has medical emergency or daughter is getting married they want a loan so it is backed by a mortgage as well they are backed by cash flow because there is stipulation of installment income ratio even for the LAP in CanFin. So, we are not getting into those sort of LAP which are going to see the delinquency so the options are limited now for CanFin where we are finding new ways with builder loan book if the projects are complied with RERA yes, we might have seen in the asset mix that we have given this builder loan book has increased compared to March. Right now, if you see my Slide #9 there is an increase a slight increase in the builder loan book it means sanctions are there and disbursements are happening.

**Moderator:** Thank you. The next question is from the line of Nikhil Jain from Galaxy Advisors. Please go ahead.

**Nikhil Jain:** My question is related to two or three points. One was what is the run down on the book on a quarter-on-quarter basis basically the loans that are getting repaid or there is a balance transfer which is happening so because that is the organization will have to work harder to reach the same number because that significant number of loans are getting moved out.

**Sarada Kumar Hota:** Sir booked out numbers we have been in a position to rein in these balance transfer sir in a significant manner compared to the quarter one, quarter two or quarter three of last year, in quarter four we have witnessed a substantial reduction in the balance transfer in current quarter we have not seen really so huge balance transfer which are alarming. The usual run down for a mature loan book like CanFin because when we are growing those 35% or 40% rate those loan books are coming for repayment all those cases are no pre-EMI those are EMI cases sir. So, when for a new book, when for a young book you disburse 100 crores and outstanding both by 100 for me it is every week on 5th , 10th , 15th , and 20th every Friday my repayment itself is significantly higher so average rundown is something like 17-18% around 2-3% more we are witnessing last year that is gradually coming down. So, you can safely presume that it is in the range of 17-18%.

**Nikhil Jain:** 17-18 okay. And second question was that if you started this insurance promotion business basically. So, has there been anything which you can report there or is it significant I think it is very small right now but what is the management idea about that?

**Sarada Kumar Hota:** As of now what we are doing is we are really focusing only on the loan covers, there are risk mitigants because we want loan life cover so that somebody is taking a home loan the home loan will be the biggest liability in anybody's life and in case the earning member goes or in case of any eventuality, the account is bond to turn into NPA or you need to auction the property. So, to avoid those things we are trying to cover the maximum number of our home loan borrowers under a life cover, under the master policy, it is not that premium intensive, the premium amount is very small as well the commission earning is small. But going forward yes, we have got other products also now we are selling across the counter and our fee income from that front is going to increase. It is relatively small compared to the interest income and NII.

**Nikhil Jain:** And one final question is when do you expect CanFin to actually reach its old or let us say older run rates on growth and all where it was growing at 30%-35%-40%? So, do you think it is possible in today's circumstances and if so when do you expect that, any thoughts on that?

**Sarada Kumar Hota:** So, 30%-35% growth rates you are expecting then I think we are already paying a price of those 30%-35% growth rates. If it is in no growth in loan book you can grow at 30%-35% consistently but once if loan book has matured and there are rundowns, I suppose if the market is growing at 16% and I am growing at 18% I am comfortable. If the market is growing at 28% then CanFin will be growing at 30% that I can assure you, not that when it will come back to 35% it will be like a bhavishyavani by a Jyotish.

**Nikhil Jain:** You would say that you would be more comfortable in predicting let us say if market is at x then we are a touch close to x+2 to x+5.

**Sarada Kumar Hota:** I do not believe in predictions, sir. I am making it very clear. We are not desperate for growth. If you are desperate for growth you are killing the loan book. We are not planning for short-term. If you want to build a book, building a book is damn easy always I stand by these wordings. Building a book is damn easy you can go and really build a loan book very comfortably if you want to do, just if you are interested in growth. I am more interested in really somebody asked a question about ROE, ROA and the other earnings ratios I am really more interested in those.

**Nikhil Jain:** No but the point is that we have also given our guidance 19,500 for this year and 40,000 for 2022 right. So, that is the …

**Sarada Kumar Hota:** 40,000 for 2022 should not be difficult going forward because always henceforth if there is no further intervention, you can always comfortably assume that if we are growing at 17.5 now it will grow beyond 20% by the year end and will go beyond 25% by next year. It is going to improve only sir from here.

**Nikhil Jain:** But what are the levers for growth, sir? Because we are saying that it is the banks are pushing us so hard one is that, second, we do not want to go very aggressive on balance transfers or very aggressive in terms of getting the book.

**Sarada Kumar Hota:** Sir, balance transfer to, I will answer sir, I got your point. I will answer, balance transfers we are not okay with because balance transfers are not happening for rate of interest those are happening mostly for the top up and you are diluting the LTV. We do not want to spoil the quality of loan book. Because that will come into play only when the balance transfer case gets into NPA and you are going to auction the propriety. Next one is, if you are asking me about the increased competition from the banks, yes sir that is going to remain till such time there are no alternative avenues for the banks to really engaged in. I do not know really whether the segment is so big if the sector comes into full play I think there is adequate products for everybody and the demand is huge and CanFin is really very small. Our appetite is not that big. We can really grow back to 30% very comfortably. Another differential I will tell you it is pure arithmetic. Some geographies, I have already disclosed that minus Karnataka my growth rate is already at 23%. When there is an improvement in those places, those geographies other than Karnataka or other than South, it will not grow back to 30%-35% immediately. The 23% may grow to 25 and then to 27. What if Karnataka is growing at single-digit it will not grow to 11% or 12%. It will also grow back to 20% sir. So, that 10% jump or doubling of the growth rates, once that is addressed the growth will be much faster here, where I source my 33% business from? Just you can compare somebody is growing at this rate if the geographies doing really good and still growing at this rate, suppose I have to worry. I am not worried because those growth geographies where growth is there we are growing at a much faster pace.

**Nikhil Jain:** My only submission was that from 19,500 crores which is let say the FY19 exact to 40,000 crores which is FY2022 we are talking about a 27% growth rate in our …

**Sarada Kumar Hota:** 26%, it is CAGR of 27% and current year I know that yes right now I need to grow at for the next 3 quarters it attracts the growth rate of close to 27%-28% to reach that 19,500. So, we will wait sir, I will wait that is why I sought your time, I beg your time for one more quarter to really answer on that. If there is a guidance required some change in guidance required yes, we will not shy away. We will say it will not be possible if we cannot really, we have deployed some levers we are working on. Because it is not that from the first quarter and I will really back out and I will say that no 19,500 is not doable, that does not look fair.

**Moderator:** Thank you. The next question is from the line of Abhishek Shah from Valcore Capital. Please go ahead.

**Abhishek Shah:** Sir, just a small question, most of my questions has been answered. Just wanted to understand you said that suppressed valuations and growth not picking up we are not looking at diluting. But are there any internal rules in terms of what will be the valuation at which you will be open to diluting or a minimum growth rate that you would be looking at before which we will be looking at diluting?

**Sarada Kumar Hota:** I think this question is not for CanFin. CanFin is not diluting. CanFin management is not engaged in that.

**Abhishek Shah:** No, I am not talking about that. I am just taking about further diluting our equity.

**Sarada Kumar Hota:** Diluting our equities are that we will look at sir at right time we are, current valuations we are not, we are just to, we want to because current growth rate it does not warrant really capital. And another thing is as long as I am doing ROA much higher than my growth rate sir, it does not make sense. The growth rate has to go beyond the ROA after that we will think of.

**Abhishek Shah:** If our growth rate picks up but valuations continues to remain suppressed so what will be your game plan then, will be still be open to diluting that?

**Sarada Kumar Hota:** No, we will take the call that point in time. If your growth warrants capital it will be need base sir and we are not really going for the sake of dilution we will not dilute. If my capital adequacy is rose strong now, the Tier-1 is almost quarter to 17. So, we do not require as of now and debt-equity has come down to 10.03. We are presuming that yes, growth will come back and once growth comes back and we are clocking a growth rate much faster than the ROA that we are making and then in the case certainly we will tap the market. We are holding the permissions for as an enabling clause only as of now.

**Abhishek Shah:** Sir and you mentioned we will be looking at builder loans as well.

**Sarada Kumar Hota:** Yes, we just started doing really.

**Abhishek Shah:** We have started?

**Sarada Kumar Hota:** We have started doing, my builder loan book has increased if you see the Slide #9.

**Abhishek Shah:** Sir, what is the internal target how much we want to keep it as a percentage of book?

**Sarada Kumar Hota:** No, because it is almost negligible now.

**Abhishek Shah:** So, internally you would want to cap it?

**Sarada Kumar Hota:** No, we have got our internal cap sir. But I think it will take by the yearend or so, we can really surplus that cap sir. That is because they should be fundable projects as well so many. We really do not want to engage in the big builder segment, sir. We want to engage in only affordable segment and those 5 crores – 10 crores projects that sort of project.

**Abhishek Shah:** All of we will be RERA registered only then will be …

**Sarada Kumar Hota:** RERA registered only. If not RERA registered, we are not willing to get into a builder firm.

**Abhishek Shah:** Sir and earlier you mention that we are looking at metros now we are looking at smaller towns also. And the projects which are not in our current existing geographies besides Karnataka and our home states, so are you facing any different challenges in terms of the lending environment on if you can just explain us what is happening on that side?

**Sarada Kumar Hota:** Now all the places we have open branches, the managers are really diehard old CanFin mangers, sir. Only officers we are sourcing from the place, it is not that we are opening a branch in a geography where all the including the premises the staff you are seeing there are outsiders not that. So, we have restricted our number of branches to as much staff and mangers we can deploy, so that it remains the CanFin outlet not some other company outlet that I have sourced the manpower also from outside. So, there are no issues, the delivery and the feel of CanFin you can have very much intact even in all those new branches at its best.

**Moderator:** Thank you. The next question is from the line of Aman Jain from Parasnath Investments. Please go ahead.

**Aman Jain:** Sir, yearend you were projecting Rs. 99.5 thousand crores of loan book and for the current ended quarter we have been at least 16,100. So, that means on a net basis we need to add Rs. 3,500 crores of book. Given that you are saying that of the last year's book there should be a rundown of 17%-18% and since last year we had ended on Rs. 15.5 thousand crores, so roughly you are projecting that we should be doing a rundown of Rs. 2,600 - Rs. 2,700 crores. Given in the current quarter we have done Rs. 800 crores of rundown already. So, are you saying that for rest of the year we should not be doing a rundown of more than Rs. 1,800 crores?

**Sarada Kumar Hota:** I think the rundown rate also will go down because now I do not know whether you have witnessed there is a shift in the focus of banking sector also gradually from home loan to other loans. Going forward, yes there will be change there will be a shift not to worry about that is it. As long as once economy picks, once the other sectors are lucrative. End of the day it is housing finance, it is the housing finance company whose outstanding level to home loan sector is much bigger. So, my role to be played is much higher. So, it is not that there will not be a space available for us, sir. Only thing is will be pushed out of the metros, sir. Sir, when it comes to big tickets always the preference, the choice even for you and me if you are taking a loan of 50 lakhs or 70 lakhs or 60 lakhs, you will always look for the finer rate of interest because the net impact on the EMI will be much higher even if with this 25-30 bps difference. Because historically CanFin's rate of interest has remained higher than Canara Banks and Canara Banks rate of interest has always remained higher than that of SBI or ICICI Bank or HDFC Bank.

**Aman Jain:** So, is that something which is pushing us out of the market much higher interest rates?

**Sarada Kumar Hota:** Yes, that is what is pushing us to lower ticket size as well as to newer geographies, sir. Non-metro, Tier-2, Tier-3 locations, sir.

**Aman Jain:** Are we confident on the 17%-18% number of rundowns, which you are saying, or it can be more than that?

**Sarada Kumar Hota:** It is to come down. The things going forward things will be better only. It will not work then. I think we have bottomed-out as far as the rundowns are concerned as far as the delinquencies are concerned. I think things will look better from here on. The sales will improve because there are the government machineries as well as all of us the financing institutions we are working on improving the supply side, sir. If we are doing builder loans that is also working towards supply side. We understand our responsibility to create those stocks as well so that my home loan portfolio grows.

**Aman Jain:** So, my question is since you are saying that by end of the year, for this year our rundown should not be more than Rs. 2,600 crores to Rs. 2,700 crores given on a 17%-18% guidance. So, what my question is and you are predicating Rs. 99,500 crores of book. So, basically Rs. 2500 crores more, so 3,500 1,800 of left over rundown that means we have to do our gross disbursal of Rs. 5,500 crores in the next 3 quarters to just hit our target. Where would these growth comes from?

**Sarada Kumar Hota:** Last year it was one of the bad years, sir. But even then, if you see my last year's the disbursements were 5,200 crores. The sanctions were new approvals were 5,800 crores almost.

**Aman Jain:** And previously?

**Sarada Kumar Hota:** Yes, it is doable. It is not that we are not aggressive. The point is we are aggressive where growth is there, where growth is return. I have got geographies, I have got branches which are growing at 30%. So, that is why I told minus Karnataka if my growth rate is 23% in the loan book and the approvals are up by 16% and the disbursements up by 14% that includes Tamil Nadu which is not back in normal. It is not doing really so great.

**Aman Jain:** You are saying for next, within next 3 quarters we should be able to add Rs. 5,500 crores on a gross basis to the loan book and our net basis 3,500 crores roughly I am talking about. Not on your Rs. 99,500 crores target.

**Sarada Kumar Hota:** Yes, we are still working on that. It is not that I am not telling that it is not doable because we have done it last year when things where not that good. Now things are improving.

**Aman Jain**: That was for the entire year, right? So, basically, we are saying given, if we add Rs. 1,200 crores for the current disbursal, so we are saying instead of Rs. 5,200 crores disbursal last year we will do a Rs. 6,700 crores disbursal this year on a gross basis.

**Sarada Kumar Hota:** Doable, it is not that it is not doable.

**Aman Jain:** So, basically you are saying we should be able to beat the guidance which we have …

**Sarada Kumar Hota:** Can you see the last 3 quarters addition in the outstanding loan book and the disbursements please. I will tell you and you can note down. In my March presentation there is quarter-on-quarter presentation. Quarter 4, the disbursements 1,386 crores net. Quarter 3 was 1,321 crores, quarter 2 was 1,335 crores. So, almost it is persistently increasing and the increases in last 3 quarters, the net increase in the outstanding loan book.

**Aman Jain:** So, these are the net numbers you are saying.

**Sarada Kumar Hota:** Yes, in last 3 quarters itself it was almost to the extent of something like close to 2,000 crores, 685 crores that if not 2 plus 648. If in 3 quarter that was doable current year 3 quarters, you can load an increment and we can work out. I think it is doable.

**Moderator:** Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

**Nirmal Bari:** On the builder loan side, what would be the maximum loan that we can give to a single builder, single project kind of set up?

**Sarada Kumar Hota:** No, we are not taking such prudential any restriction, Nirmal ji. But certainly, we do not want to increase our single loan exposure in a big way. So, we are restricting to people who construct what is that called the delivery should be in my segment. It means any price should be in the range of 30 lakh-35 lakh then we are okay with that. The project should not be that the guy is not in a person to handle. We do not want to engage on big scale and something like 25 crores-30 crores, we are not okay with as of now. Gradually, we will see if it is a RERA complied and very good builder getting into that space we are willing to. But as of now we have not engaged in such process.

**Nirmal Bari:** And you mentioned somewhere during that we do not want to be the sole financiers to that builder for the entire project?

**Sarada Kumar Hota:** If the exposure is bigger we are okay with consortium. Individual exposure we are restricting we have got our own caps that how much will expects ourselves ...

**Nirmal Bari:** Consortium, how do we ensure that we did the best of securities?

**Sarada Kumar Hota:** Once we get into I will engage.

**Nirmal Bari:** So, far we have not got that.

**Sarada Kumar Hota:** As of now we are not.

**Nirmal Bari:** Second point was on the NPAs, you said that we have 514 accounts under SARFAESI at present? So, how many of those were added in the previous quarter?

**Sarada Kumar Hota:** All the loans were added in previous quarter, till March 2017 almost SARFAESI action was zero for the company. Not much …

**Nirmal Bari:** 327 accounts that we had in Q1 of last year all of those went to nearly zero.

**Sarada Kumar Hota:** Yes, mostly last year's loans only. That is what we have disclosed even in March presentation, sir. 373 loans we took action during the year under SARFAESI amounting to 60 crores. Out of that 27 accounts we closed amounting to 7 crores. 118 accounts we upgraded that amounts to around 19 crores. Few are there which have slip into current year the few are there which will slip into current year. The action is still in process because most of those SARFAESI actions we initiated in Q3 and Q4 of last year. Quarter 1 we had recognized those as an NPAs and then we issued the notice but by the time you go and take possession and you auction those properties after the fresh valuation picking up the reserve price it takes time.

**Nirmal Bari:** And do we have the data for how many of these accounts at present we may be holding on to the collateral as any and prime for auctions?

**Sarada Kumar Hota:** See, in all the accounts there are entire loan book is fully collateralized that by mortgages.

**Nirmal Bari:** Yes, I do not mean that. I mean that cases where you have given the second notice and then taken possession of the collateral property and now are in the process of liquidating that?

**Sarada Kumar Hota:** Yes, these are in various stages, sir. I told out of 514 accounts where SARFAESI action has been initiated that amounts to around 85 crores. In case of 226 accounts amounting to 42 crores, it is 42 point odd where already the possessions have been taken either symbolic or physical and 13 accounts we have already sold during the quarter. That must have been taken possessions last year.

**Nirmal Bari:** And thirdly there is just a clarification. Someone had asked this question earlier for Stage-3 and which we are nearly fully provided. Is it correct to assume?

**Sarada Kumar Hota:** It is fully covered.

**Nirmal Bari:** Sir, can I get the borrowings number. I did not find it in the presentation and I joined the call late. So, I think if you had given it earlier I did not capture it.

**Sarada Kumar Hota:** No, against our statutory requirement our ECL requirement was bit higher. But over and above the ECL requirement, we are holding adequate surplus. My total provision that I am holding is ahead of 100 crores for the portfolio of 16,200 crores and we are really holding adequate surplus but as a prudent measure, as an abundant precaution we decided not to write back any provision and inflate our profit, sir. So, we have not written-back anything which was permissible under Ind AS, sir. As per ECL whatever was requirement we are holding adequate surplus, we are not written-back any that is what I want to tell. Because many balances you will find now where you will have write-back, sir. If it allows that, CanFin has not such the provision. CanFin has not touched provision, sir.

**Nirmal Bari:** I am asking about the borrowing, sir. Our borrowings as on June 2018 how much is the total value as in?

**Sarada Kumar Hota:** Total borrowings value?

**Nirmal Bari:** Yes.

**Sarada Kumar Hota:** Total borrowings are always you can arrive by taking the loan book minus your capital and reserves. You will always find the net borrowings always. Because we do not keep anything. Our final amount remains into OD account where every day requirement is borrowed from there.

It always matches. We do not borrow anything surplus and put either in a liquid fund or somewhere we do not park.

**Moderator:** Thank you. Ladies and gentlemen, we take the last question from the line of Rajul Sheth, an individual investor. Pease go ahead.

**Rajul Sheth:** Our NIM has come down to 3.26. How are we going to be address that?

**Sarada Kumar Hota:** Sir, the margin drop, it was really for the full year it was 3.53 but for the last quarter it was 3.38. So, there is a 12-basis point dip 3.26%. There is a pressure on account of the rising cost of funds. There is a 27-basis point increase in the cost of fund quarter-on-quarter compared to the standalone quarter 4 of last year and quarter 1 of current year. We have been in a position to pass on 14 bps, sir. So, there is a hit of around 14-15 basis points we have been in a position to pass on and in terms of in the yields, there is a 12-basis point dip in the spread as well as the NIM that you are seeing. So, going forward that will be decided mostly by how the market is.

**Rajul Sheth:** Average loan ticket size around 18 to 19 back, right?

**Sarada Kumar Hota:** Yes, sir that has reduced to 17.8 now.

**Rajul Sheth:** So, now we are going into more and more **(Inaudible) 1:39:12** areas. So, that because our tickets size around 17 to 18 lakhs. So, in the state of Gujarat do not we think we should, we have, I think we have open branches in Rajkot, Bhavnagar and Jamnagar. Then we should also endeavor to also increase more branches over there, for example like Bharuch, Valsad, Vapi.

**Sarada Kumar Hota:** Yes, certainly we are looking into, sir. Right now, we have gone into 20 new locations and this time if we have earmarked these branches are mostly in new locations where CanFin was not present. Earlier expansion was mostly into somewhere a branch is there and we are opening another branch mostly in metros Bangalore, Chennai, Hyderabad and such places only. Now we are going to the newer geographies. We have surveyed few more locations in Gujarat as well. We are just waiting sir, because I should have the right type of people there who can go and do. I cannot hire both these managers also from the market and open a branch, sir. So, that comes in the way.

**Rajul Sheth:** What about Amritsar and Ludhiana and Jammu?

**Sarada Kumar Hota:** Jalandhar, we have opened a branch yesterday going forward let us see, sir because that is what man power is a constraint that I should have adequate number of managers to really expand, so drastically.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**Sarada Kumar Hota:** Yes, my sincere thanks to all the investors as well as the analysts who gave their valuable inputs. We always take this interaction as because it gives so much of input to the management to really take our strategy. We have been enriched and I take your valuable suggestions, sir. We will take it on to the board and the management will work on that. Going forward, these are the phases of improvement only. So, you can rest assured that the management is working on the tips and the inputs that you are giving as well as the expectations of the investor community. Our job is to create value for the investors and for CanFin as a company and the management is committed to that. Wish you the best of time ahead. Going forward, quarter 2 and after quarter 2 the quarter 3 will see the festive season certainly we can look for the better days and good numbers to come back on our growth. Thank you.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Investec Capital Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.