"CanFin Homes Limited
Q2 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the CanFin Homes Limited Q2 FY2019 earnings conference call, hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Utsav Gogirwar from Investec Capital Services. Thank you and over to you, Sir!

Utsav Gogirwar: Thanks Janice. Good morning all. Welcome to the Q2 FY2019 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 hand over the call to Mr. Hota for his opening comments. Over to you Sir!

Sarada Kumar Hota: Thanks Utsav. Good morning. Q2 for Canfin, it has been one of the finest quarters in the recent past, mainly because we have seen a clear uptrend in terms of the disbursements and the products as well as in terms of the loan book growth. In the sense, if you see the disbursements for the time in recent quarters, the quarterly disbursements have seen 7% increase year-on-year, on sequential basis, approvals have gone up by almost 25%-26% and the disbursements have gone up by 24%.

In terms of the incremental growth in our loan book, it has been for current quarter it has gone up from Rs.16200 Crores to something like Rs.16935 Crores. Almost we are just behind Rs.17000 Crores mark and the incremental growth for the current quarter has been in the range of something like Rs.740 Crores. Compared to previous year Q2, this was Rs.680 Crores. In the recent past, this number was dwindling around Rs.500 Crores. For quarter one, it was just Rs.453 Crores compared to that if you see there is an increase or something like almost 63% rise over the Q1 in terms of incremental growth in the loan book.

The year-on-year growth still remains subdued at something like 17.1%, but it is because the usual repayments and the rundown on our book was bit on higher side till Q2, which going forward, we strongly expect that this is going to pull up and those loans, which have been sanctioned, the new approvals in disbursements in Q3, which usually happens to be the best quarter of the year for home lending because of the festive season that starts with Dussehra and through Diwali, it runs up to the Christmas and the New Year and the spillover impact will be there in Q4 for the sanctions those have been made in quarter three as well. So Q3, Q4 we expect that this would have the best ever growth for CanFin in terms of the loan book growth.

While coming to the numbers, the income has gone up by something like 12% for the quarter. The interest expenditure has gone up by almost 18%, this is primarily on account of the rise in cost of funds. Rise in cost of funds, we have been witnessing since last two to three quarters particularly for the rise in bond yields, but in the same times, so we have moved most of our market borrowings those matured that has been replaced by way of the bank lending or going forward, we are planning to replenish a lot of those market borrowings in terms of bank borrowing, both from the bank as well as on the NHB route that we considered as part of the bank borrowing.

The cost of funds has gone up sequentially compared to from Q1 it was something like 7.73%, now in September it is 7.83%, so there is a clear 10-basis point increase in the cost of funds, but the June quarter cost of funds as per three month, we should take the three month standalone cost of funds for Q2 to 7.93, there is a rise of 20 basis points whereas the yield remains almost around same level of 10%, it is just a marginal drop to 9.99% for the quarter also it is coming to almost that level. So the spread has reduced by from 2.27% for Q1 to something like 2.16%, as on September and for the quarter almost there is a 20-basis point dip in the provision whereas margins we are in the position to hold down that is because of good disbursement as well as most of there is a little pain hit in the amount of growth that has come from the non-housing portfolio as well.

The non-housing portfolio is primarily into if you have seen there is a small increase in the builder loan book, it has been a 10 Crores book now, even though it amounts to something like 0.06% or something like that, but the company has been making big headwind into the very affordable the builder loan book cost of finance where the customers are, they are already with CanFin for quite long and those who were launching these affordable projects.

So when it comes to the growth plan, the company has restricted itself, if it is housing, it is affordable, if it is non-housing, it is primarily in to those small ticket around Rs.7 lakhs to Rs.8 lakhs either personal loans, top up loans, or to the Rs.3 Crores, Rs.4 Crores, Rs.5 Crores that sort of builder loans. In terms of the NIIs, NII has depressed because of the increase in the funding cost that has been the cost of fund, the interest expenditure that we have incurred during the quarter. As I told you, interest expenditure has gone up by 18%, interest income has gone up by 12%, that has reflected in terms of NII growth, but despite that thanks to the very good operating as a CMC of the company that we have been in a position to maintain our cost income ratio, it has improved further to below 14%, it is a Q2, 14% really as of now and that has helped us to improve our both PBT as well as the PAT.

The PAT growth for the quarter is something like 8% the quarterly number, for the year it is something like 9% and the PBT growth for the quarter it is 12% and for the half year it is 9%. As far as the receivables are concerned, the receivables have been fairly good. We have been in a position to hold on to the margins, ROA, ROE, all around the level. There has been no depreciation in terms of financial ratio in terms of EPS or there is a strong improvement in the gross NPA as well as net NPA level. Gross NPA has improved from 0.62% to 0.63%. Net NPA has improved from 0.44% to 0.42% and the debt equity has improved, it is around 10.2% or so. CRAR it is becoming stronger and stronger, it is at 9.07% now with a CRAR of 17.16%.

If you see the company has opened new branches during the quarter of almost 20 branches and all these branches are primarily except for one Bannerghatta Road in Bengaluru, rest all are in the non-south geographies, in Tier II and Tier III and Tier IV cities. And the first time, we have entered West Bengal that we have opened the branch in Durgapur and we have opened Jalandhar in Punjab. Right now the company covers 21 states and Union Territories put together. As far as the composition of the book and the quality of lending is concerned, we have restricted to our niche segment of LIC and lower MIG segment only.

We are very strong positive going forward for Q3 and Q4. I would like say that company has introduced two new products under affordable housing, one is for ACL Urban and one is ACL Rural. These will be the substitute for the erstwhile rural housing and urban housing where we can draw the finance from NHB and we will enjoy the 3% and 3.5% margin in those spaces. So these are two new products where we envisaged that going forward this will help the loan book growth as well as the cost of funds in a very significant manner.

In terms of our recovery report, I have told that there is an improvement in terms of the receivables, but on ground Q1 we have told that almost 600-odd cases are filed under SARFAESI, out of the 107 Crores of NPAs, it is almost close to 100 Crores, which qualifies for SARFAESI where SARFAESI can be invoked. All those cases, SARFAESI have been invoked and during this particular quarter, we have sold 14 properties worth something like close to Rs.3 Crores and 233 after SARFAESI action, amounting to around 28 Crores has been upgraded.

As far as provision held is concerned even though we have migrated to Ind-AS, the NHB direction is whatever is there under IRAC the erstwhile prudential norms that has to be maintained minimum, so that we have for NPA provision required is something like 25 Crores, 25.31 Crores, we are maintaining a provision of around 35.87 Crores, we have not withdrawn any amount. Similarly for standard assets, the requirement is 56 Crores, we are holding something like 55 Crores. So the company is holding a provision of almost 100.6 Crores as of now.

This is all from my side. I think, the composition wise, it continues to be 90.1% housing and 9.9% non-housing out of the outstanding loan book, the salaried is still at above 72% and out of the fresh sanctions it is something like 1 Crores to two-third, two-third is salaried, and one-third is a non-salaried.

Geographical spread with gradually. The contribution of the non-south geography has been increasing for us till 2015. It used to be something like 23%, now it has got out to 32%. That is a contribution in terms of rest of the business. Majority of the new approvals and the loans that we create, as I told it is mostly under LIG but is up to Rs.6 lakhs income, it is something like 59% account and almost 45% by volume, it comes from that LIG segment under MIG-1, which almost something like 50% by volume and 40% by a number of accounts. Only 3% by account and 6%

by amount is the non-CLSS loan that is with the income of more 18 lakhs. The composition has remained the same for the company.

Going forward, we envisage that the growth whatever disbursements we are making, mostly it will translate into loan book because we expect that the rundown on the book that was depending on account of balance transfer is going to cool off somewhere in Q3. The liquidity issue, the discussions around the delinquencies fortunately your company is not in that league, it is having very strong liquidity. The liquidity position backed by on credit lines, any point in time equivalent to almost next two to three months payout obligation and as I have maintained and we have filed exchange clarification to the both BSE and NSE during those period when the issues were being discussed that CanFin historically has never ever gone for rollover of any of its markets borrowings, even during this period we have not borrowed in something to payout becoming maturing CP or NCD. Any point in time, we always had adequate liquidity for our current obligation, for our growth and for the future growth right now, the company is having almost close to Rs.2000 Crores of honorable limits, which are readily drawable that apart almost 1500 Crores of baseline limits, which are in the pipeline that we are expecting very shortly.

This is as far as the picture as a whole, I think the rundown percentage comes down, the company's growth rate from this 17% points, it will go above 20% in its natural way, because for the Q2 and the Q1, the first half year we were disbursed something like Rs. 2600 Crores. In the Q3 and Q4 put together, our disbursement if it goes just to 3000 Crores then we are crossing the 20% growth rate. That is what our threshold is. Thank you, along with me, the MD, Mr. Shreekant and CFO, Mr. Bagchi both are available and will be glad to clarify any points now beyond if you want to ask.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We would take the first question from the line of Augustya Dave from CAO Capital. Please go ahead.

Augustya Dave: Thank you very much. Sir given the opportunity, it is great to look at the numbers this time around and see that the upticks have started happening, Sir, if you could just give us some commentary on the Karnataka demand, on the Tamil Nadu demand or home states, how are they looking up now? Sir, I also had a question on our NHB financing. NHB has increased the limits this time around and I was just wondering Sir when I went through the annual report, we have substantially decreased our NHB refinancing limit. So what was the reason and you mentioned in the opening comments you see sequel to increase both as a source of funds, so what would be the impact on our cost of borrowing because of that. Sir, you briefly touched upon the rundown on the book and your expectation that maybe because of these liquidity concerns that others are facing. We will see a slightly lower rate of rundown. So do you expect competition to substantially decreased because we were seeing some level of competition from the other NBFCs? So if you could just quantify that Sir, what you are seeing on the ground and finally Sir would this result in better spreads and better pricing power going forward? Would we see our spreads expanding again appropriately within a quarter or two? Is this the possibility or you think the market is not strong enough to sustain any increases? Thank you Sir.

Sarada Kumar Hota: Thank you. So nice questions here. I clarify one by one. First if you asked about the sluggish growth in the home towns that is particularly in Karnataka and Tamil Nadu, by and large in both the states we are seeing there is an improved approvals as well as disbursements to compared to Q1. The numbers for Karnataka also in volume terms it has improved significantly whereas in terms of percentage, if you compare I think it will take little time to come back to a normal growth rate. But in volume growth, as I told you Q1 to Q2 sequentially if you see the disbursements have gone up significantly even in the Karnataka region. Even though year-on-year maybe compared to Q2 of last year, Q2 of this year, there may be a drop that is why it pulls down the overall growth rate of the company in disbursements or in the outstanding because we are a 31-year-old company, where there are matured and pretty old loan book where repayments as well as the pre-closures will be there. Even though we sanction loans for something like 20 years, 25 years, the average turnover is 12 to 15 years for a home loan. So people do come and they repay and they close the loans. It is unlike in new home finance company where you disbursed 100 Crores and loan book goes about 101 Crores because that 1 Crore interest rate accrual also is not yet due. Another thing is the company is sitting at a very strong asset quality then the repayments are strong enough that repayment the usual repayment that I receive on my repayment cycles of 5th, 10th, 15th and 20th only through the ECS and NACH module or something in the range of 65 to 75 Crores on each cycle. It means in a month if you sanction something like 500 Crores or 550 Crores my disbursements are in 400 to 450 Crores in that range and whereas my loan book grows by hardly 150, if you see the average growth on the loan book what has come in the last six months, it is 1192 Crores for six months. So it is hardly 200 Crores a month whereas it should have been usually in the range of something like at least 300 Crores or maybe 250 Crores even with that 50 Crores increase, because the usual repayment is as I told you if you have per month disbursement of something like for the first half year, I am giving the breakup. The average per month increases 435 Crores in terms of disbursement, there is interest accretion of something like 135 Crores. So it comes to almost 570 Crores whereas the loan book growth is 200 Crores. It means 370 Crores rundown is there. Out of the 370 Crores maybe 275 Crores or 300 Crores is my usual repayment that 70 Crores makes the difference where which is primarily the next half-year.

Augustya Dave: Yes. Do you expect that to decelerate?

Sarada Kumar Hota: Yes, going forward at least from the NBFC sector that one for somehow grow a loan book that should stop going forward. I think the situation through which the industry is running now. I think the time has come where you again feel so very happy that yes you stand indicated that small is beautiful in the sector and being retail is really beautiful, being purely retail because CanFin has been a niche player, we have grown that way for 31 years. We have remained that strong even when people were running for those 40%, 35% growth. Even the company has tried to run like that, but we had our own learning from those. What happens is when you are running just for growth without a focus on quality, we do not know because in a home loan things starting showing up after a year or two or three. So that way the company has been very strong, being small, being CanFin is really it is a very good thing for the present moment. Liquidity is not in a superb worth because our rating or the strong parenting, very little loan book, very strong asset quality, these are the major determinants where lending is not an issue for us. Otherwise, the banks would not be giving so many credit lines. In October itself, we have already secured Rs.1500 Crores worth new term loan another Rs.1500 Crores is there on the way that is in the final stages of corporate loan. That is what we have disclosed even in our presentation. I do not require really so much of market going. If the market is good, certainly we will look up to that and believe if it is not that we will not be there in the market. If you see in the recent past, because CanFin, which has gone and we have raised Rs.500 Crores for three months just 10 days back. Nobody is going for three months money. It was mostly two months money. We are not willing to really raise anything in two months. Even in CP, we are looking for something long. In NCDs, major part of our borrowing from the money market is by way of NCD. If the bond yields are okay, if the market is comfortable, if those rates are okay for us, we are willing to borrow. Otherwise, we have got adequate sources and those sources are open wherever it is cheap we are borrowing there. The bank credit lines are cheaper for us right now as long as I am in a position to pass on, I think the cooling of competition, the MAT spike, and MAT raw for building a book if that pulls up a bit, I think the pricing power also passing on the cost also that will be easier for any of the company. I think that will be more equalizer, next question was NHB funding. Let me answer your query first. The NHB funding why you are not borrowing, why we have reduced it is, earlier we have to direct a lending funds from NHB, one is rural housing and another is for urban housing. In recent past, NHB were changing its own structure. Now there is a new affordable housing fund, which has been launched and as we have seen in the reporting that even their refinance limit has been raised from 24000 to 30000 Crores. Under that affordable housing, these are all those urban lending, which are under CLSS and LIG or in that less than 6 lakh income and in rural less than 3 lakh income, those people were qualified for that sort of loan. And CanFin is very strong name to that segment. As I told you in major part of our lending comes from that segment. We have been a niche player in that segment and that is our forte. We presume going forward our borrowing from NHB also is going to increase because we enjoy real clear 3.5% margin in those cases. That is going to help us both in terms of liquidity as well as in terms of cost of funds. Why you are not borrowing this we considered NHB as well in that banks bracket. It is a bank. Like any other bank NBH is bank as long as the funds cost is okay for us we will like to borrow.

Augustya Dave: Sir one last question, which I have been asking for almost one and a half years now, the rights issue. Now that price has corrected sharply and you have maintained that 2019, 2020 and 2021 will be very strong years, if the government has to meet the housing for all, the program that we have launched. So are you still looking for 1000 Crores because you have mentioned that the second last slide you have mentioned Rs.19500 Crores, you have mentioned the same 40000 Crores target and then you have also mentioned 1000 Crores through rights issue beyond preferential shares so if you could just give some comment on that? Thank you very much Sir.

Sarada Kumar Hota: As far as the rights issue is concerned, it was, after the Q1 broad I supposed we were declared that is 2000 Crores. I think you have been asking this question and in all the quarterly earning calls, I have been clarifying this point. It is not 1000 Crores. It is up to 1000 Crores. As of March 2017, my leverage ratio had crossed 11. It was starting the 11.03 or something like that as of March 2017. That is where we decided that we are not comfortable with this leverage ratio, not for capital purpose because the company is very well capitalized and our strong Tier 1 capital itself is 17% plus now. So you do not require any capital for growth, but the leverage ratio helps you in borrowing system particularly from the banking channel. The banks are not comfortable if your debt equity is nearing 12% or if it is beyond 11% that is why we wanted to raise up to 1000 Crores that is what permission we have taken for right because rights issue, there are issues, we could not push it, subsequently that is where we took to have other options. Other options means there will be dilution in the equity holding of the existing shareholder. We require permission from the general bodies that is why from last AGM we have taken permission for QIP, as well as preference allocation to do promoter. If we are going for QIP along with that issuance, so all these options are open. Right now what has happened is subsequent to March 2017, where the growth slump was there, growth reduced. RERA came in, GST came in, so many changes happened and the growth was reduced. Once the growth reduced as long as my ROE is more than 20% and growth is below 20%, my leverage ratio is improving quarter-on-quarter. So that is why we are also equally concerned that I am holding a permission, I have kept that is an enabling clause right time when valuations are okay, when the market is okay and we see that yes, now I require capital at that point in time for the right quantum through the right mode the company will approach the market.

Augustya Dave: Thank you very much Sir. Thank you for your efforts and good luck for the next quarter Sir. Thank you.

Moderator: Thank you. Next question is from the line of Jhanvi Goradia from Motilal Oswal Asset Management. Please go ahead.

Jhanvi Goradia: Good morning Sir. Sir, just two questions. The first is we had increased our lending rates with effect from April 1, 2018, by about 10 to 60 basis points across the various categories despite that the yield on advances has fallen on a Q1Q basis, so if you could just help me understand the reason for the same?

Sarada Kumar Hota: Thank you, Jhanvi Madam. Normally what happens is when the rate of interest increases, immediately for the prospective, the new loans that you have taken. For the old loans, which are enjoying as CanFin, it is the first step that you see we have to fight this the minutes of takeover, we have introduced annual reset mode. Another thing what happens is most of the balance transfers it happens at high level, when the HCL is growing whereas MSL is coming down that you are witnessing that quarter-on-quarter, the housing loan growth was very strong whereas non-housing loan growth was not that strong. This quarter we have been an alternation. First time again focused to bit of non-housing as well. So that is where we have been in a position to hold on those yields what we were giving last quarter. Last quarter was 10%, this time it is 9.99%. Otherwise in comparison to March 2017 if you see every quarter there is a drop in the overall yield because what happens is that people come for reprising and the rate of interest there were many loans, which we were earlier carrying something like 10%, 10.5%, and 11%. The rate of interest increased from March 2017, but those, which were carrying a higher rate, were also reprised, that itself is getting reprised. It is not that the entire portfolio was at base rate then how come if my home loan rate was 8.5% a year back, I was making a yield of 10% point odd, even in home loan, I was making something like close to 9.5% to close 10% yields. It is mainly because of the reprising, but what happens is in case of reprising if somebody comes and beyond the reset date or supposed somebody has not update for the annual resetting. If the rate of interest is reduced, maybe the yield will come down, but there is earning, there is a compensation for the company in terms of interest adjustments that will be visible on the other income in the fee income level. Other thing is it will not be qualifying under reset. And right now on the Ind-AS so even that whatever processing charges we are taking, whatever interest because it is effective interest, DIR concept everything gets amortized. That is right.

Jhanvi Goradia: Right so what I understand is you are saying that as on every annual reset for every loan as the loan comes up for reprising, they do negotiate for a lower yields?

Sarada Kumar Hota: Not that. Every annual resetting date, it gets reset automatically to the next two years. So somebody who was enjoying 8.5% till March 2017, maybe he is enjoying that 8.5% till March 2018 to March 2019 from April 1, he will enjoy, but what happens is every month, there is this chunk of loan, which gave reprised to the present rates. And the present rate is not 8.95%. We have increase recently again in October 2, it is 9.5%.

Jhanvi Goradia: So when have you keep increasing the rates?

Sarada Kumar Hota: No, now, we will see improvement in yields. We will see the improvement yield whereas we will be in position to hold on to the cost mainly because now NHB's affordable housing route of the finance is open.

Jhanvi Goradia: Okay at what rate are we borrowing NHB?

Sarada Kumar Hota: I am yet to borrow. The fund is declared now and we have launched two new products. That is effective for all the loans even after April 1, 2017. We have got a large chunk of that sort of cushion. So we are expecting that we should be getting it.

Jhanvi Goradia: Okay. So what is your overall guidance on spreads, do you think you will be able to maintain them or probably even increase if you are saying that the yields will increase now, but you will be able to hold down to your cost, what is your guidance on spread Sir?

Sarada Kumar Hota: See cost is increasing, I never mind as long as I am in position to pass on. So far, we have been in a position to pass on, if on ethical ways of the balance transfer takeover, the kind of fight for that, the cutthroat competition. If the competition is also big, which you expect that certainly it is going to be, I think the pricing power of all HFCs will improve. Because as far as the competition from banking is concerned that will continue to be there because again today the banks enjoy the best of cost of fund.

Jhanvi Goradia: Right, so in terms of spreads 2.16, do you think there is scope to further go down or do you think we are almost at the bottom?

Sarada Kumar Hota: Actually this is at the bottom. Now it is a big lesson for all the industry players. At least, I think going forward, it should not be difficult to pass on the cost, because even the MCLR of bank if you have seen it has increased and there is always – there has been a differential in pricing of the banks and how CanFin intends its loans. So we have been in a position to pass on so far without any dent on our loan book, not much time. Let us see, I think if you ask me I will like that as a CEO of CanFin, I will always look up to this guidance more than 3% margin, I am comfortable with that.

Jhanvi Goradia: Sure and Sir just one question more. The staff expenses usually which are in a range of 10 to 11 Crores, this quarter is at 6 Crores, so what is the reason for that?

Sarada Kumar Hota: Staff expenses it is primarily because in the Q1 on actuarial valuation was not taken, it was given on pro-rata basis. On pro-rata basis since last year if you remember the gratuity had increased from 10 to 20. So last year there was a large impact in terms of that. Another thing is on leave encashment cost. Leave encashment most of the people last year they availed the leave encashment so current year actual valuation comes strong whereas last year it was like 20 Crores plus, so this happens, so this is the one of if you see the overall going forward doing the year, I think it will average out to almost equivalent to last year, because last year was a exceptional year where we had to provide more because of the increase in the gratuity of around 10 lakhs to 20 lakhs.

Jhanvi Goradia: Thank you so much Sir and all the best.

Moderator: Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: Thank you. What I want to know is that you just mentioned that you have been able to borrow 1500 Crores line from banks, at what rate this has come and when exactly, I mean if you can give us the date?

Sarada Kumar Hota: What is that, I did not get you? These are sanctioned and honored. Already documents, it is I can draw today.

Parag Jariwala: So basically you have not drawn anything in the month of October?

Sarada Kumar Hota: No, we maintain. We do not keep. As Canfin, we do not keep money in any liquid funds, because we do not draw money from the banking channel and keep in liquid fund, because we are a bank backed one, so in my Canara Bank OD as well as an another OD account of 2000 Crores, OD account we always keep in that way and we always keep on honored limit. That any point in time we can draw and daily whatever disbursements takes place, whatever collection comes that comes into better account, it is operative account. That is how we maintained our liquidity.

Parag Jariwala: You do not need one more permission from the bank?

Sarada Kumar Hota: No, not required simply we can usually pitch and that will be all.

Parag Jariwala: Your average cost of fund last quarter was 7.83, if you have to borrow right now, what would be the rate?

Sarada Kumar Hota: You said that I will be borrowing from any one source only?

Parag Jariwala: No, even whatever combination you would think is appropriate for you, like NCD, banks and etc.?

Sarada Kumar Hota: No, you know the cost as of now. The NCD if you are taking we do not take any NCD below certain nine months tenure, which is costing 9% plus, if it is a bank loan you can see their MCLR, we do not pay anybody beyond their MCLR, mostly it is meant to their MCLR. Even NCDs, we have the lines, but basically we do not taking because it was coming full because I do not have natural hedging, no source for any forex or anything so that is why we decided to borrow everything on rupee loans, so bank credit lines are mostly on the MCLR either if it is one year or three months or somewhere even the best of rates, I think we enjoy from all the banks, all the banking partners and if it is NHB, if it is a directed fund, it will be coming sub 5%, if it is natural lending, it will come almost like any other banks.

Parag Jariwala: Okay and also through NCD or CPs we have not done anything?

Sarada Kumar Hota: We have not drawn from NCD because the same answer, last year, all the quarters we have been asked that why you have not borrowed from NHB because the NHB was not coming cheaper for me that point in time. So under general financial comes costly, same things today, NCDs are coming costly if the bond yields pay off, if it is okay, we will be borrowing, otherwise the bank loan is also of 10-year tenure for me as home loan, term line from bank, I am getting term line from the bank 8.5% or 8.4%, then why should I borrow from NCD.

Parag Jariwala: That is very fair. So you are confident about drawing down from banks, you think that basically once your drawdowns are over unutilized amount is over, you will be able to borrow again from the banks. Largely, I mean if you can give us a breakup of what is the line you draw from PSUs and private banks?

Sarada Kumar Hota: No, that way I think we do not see private or government primarily it always goes like this, whoever has made it supervised.

Parag Jariwala: Lastly have we seen any drop down in the closure rates and if you can quantify if possible, I know you mentioned?

Sarada Kumar Hota: I think it is too early. You are talking about the situation many times what happens is, we overact to such situations and that is why there is some point really, because CanFin going by the liquidity position, I think now one thing is a measure we are a 31-year-old company, I just explained to the first where is that every month if I disburse 400 Crores to 450 Crores, there is usual repayment that is coming something in the range of 370 Crores. Otherwise my loan book would have grown by 24% or 23% by now. Is not it. If that is so now the 370 Crores rundown on my book every month, I am expecting it will come down something like 300 Crores, fair enough for me, then also my growth rate goes beyond 20%. Because that 70 Crores extra, the 75 to 100 Crores the excess rundown on the book, if that goes off a fair enough for me. So we have got a natural life and natural hedge, and we have got a natural repayment, so the usual cash flows are there, which is so very strong that the incremental loan book growth is just 200 Crores and that is from 1200 Crores. If I am expecting even that 200 Crores goes up to 250 Crores a month, that 50 Crores extra, I do not think my credit line will get exhausted. It is not that if I complete, if I clear all my bank loans than what is coming it is not that, I explained you about the OD limits where we have to consider every day collection gets into that account, everyday disbursements goes out of that account.

Parag Jariwala: Perfect. Thank you so much Sir.

Moderator: Thank you. We would take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Good morning Sir. Thanks for the opportunity. Sir if I look at your presentation slide #11, there you are giving a data of 1200 Crores of collection for the next quarter and if I look at the calculator repayment rates that we are running in the quarterly run rate that is around 700 Crores, so just trying to understand like how, what is the difference of 500 Crores where will this collections come from?

Sarada Kumar Hota: What is that? Where you have seen? For the six months it is 4225 Crores and beyond?

Rohan Mandora: So Sir slide #11 liquidity position slide, collections?

Sarada Kumar Hota: No, that slide only, I am telling you. Where you calculated 700 Crores?

Rohan Mandora: Sir 700 is what I am calculating it from you loan book, disbursements and then in the way we compute the repayments. Last quarter loan book was around 16199 Crores, this quarter and the loan book is 16935 Crores, disbursements were 1443 Crores, so the repayment that happened during the quarter was around 707 Crores.

Sarada Kumar Hota: There is every month your interest accrual, interest addition to the loan book of average 135 Crores to 140 Crores, for three months that you add up to this.

Rohan Mandora: Okay, so we also include the interest, okay, got it Sir.

Sarada Kumar Hota: Naturally, interest gets added without cash.

Rohan Mandora: Sir second one Sir, in terms of if you look at on the October 15, we have again increased the lending rates and we have taken a price hike even in October 1. So vis-à-vis September till October there has been an increase of 65 to 125-basis points across various risk profiles and buckets. Sir I am just trying to understand like among the borrower's mindset around six months ago, they were look at the rates of 8.3% to 8.5% being published in many of the state owned banks and currently the rate that we are offering is close to 10% to 10.5%, so would we be actually able to get a good growth and disbursements over the second half of the year, just wanted to make your sense on that and how has been the sanction rate in the month of October right now?

Sarada Kumar Hota: It is not 65-basis point increased really, wherever we do not want growth, in those segments, the rate of interest seems to be higher, but there is always opening in the home loan portfolio where in a particular segment, because you need to know, it is not alone the increase in cost. If you see the bank the overall cost of funds has gone up by almost 50 basis points. So we have passed on almost like that around 45 to 50 basis points, we have passed on in terms of our increase in rate of interest across various if you see in some cases it is 35 basis points, in some cases, it is 50 basis points. Under NHL, there will be an increase because in NHL, naturally I will hedge the term premium as well as risk premium on that, it is right to get place like that it is the fund cost, the risk premium, the capital cost, the term premium that is what you load on that and that apart your profit margin is there, so that is how pricing takes place. So while pricing we have seen that yes, with these rates, we will be in a position to capture because there are as I told you two new products we have launched on affordable housing. Those cases once the refinance is received for a particular loan, the rate of interest is profitability. Those are five steps and then like whereas I got one home loan for so on and the plus category, low risk category of borrowers that be below 8.5%.

Rohan Mandora: Sir I did not get this part because what I am saying is H1 for below 30 lakhs, rate of interest is 9.5% and H2 plus 9.75%, so which product is this 8.5%?

Sarada Kumar Hota: So under that less than 30 lakhs, if somebody's income is less than 6 lakh in the urban area, then they qualify for it. If it is LIG customer, he qualifies for affordable housing. If I am in a position to raise the funds through the affordable housing fund, the rate of interest will come down to something around 8.5% or below that.

Rohan Mandora: This is excluding the 2.4 to 2.6 lakhs benefit that we get from the government?

Sarada Kumar Hota: PMAY subsidy is for the borrower and the refinance is for the lender.

Rohan Mandora: Are we continuing any portfolio sales from banks?

Sarada Kumar Hota: I did not get your question Sir?

Rohan Mandora: Sir any loan sales to banks as far as the securitization is concerned. We have not been doing that historically?

Sarada Kumar Hota: We are not looking at that because if I am really running for any liquidity crunch then only we can think of, fortunately in CanFin we are not.

Rohan Mandora: Sure Sir.

Moderator: Thank you. Next question is from the line of Ayushi Mata from CD Equisearch. Please go ahead.

Ayushi Mata: Sir, which target of salaried income do you primarily target?

Sarada Kumar Hota: Salaried income again as I told you it is mostly, the salaried is the income per year is less than 6 lakh LIG segment or it is something in the range of below 12 lakhs, these are the LIG and MIG one these are the segments, we target mostly, primarily to LIG.

Ayushi Mata: Sir what percentage base?

Sarada Kumar Hota: Almost 50% of my accounts are in LIG, new approvals.

Ayushi Mata: And Sir of MIG-1?

Sarada Kumar Hota: MIG one may be around further 25%-30%.

Ayushi Mata: And remaining will be from below?

Sarada Kumar Hota: And beyond MIG, I have got hardly 3% accounts.

Ayushi Mata: Okay Sir and Sir has there been any change in?

Sarada Kumar Hota: I have disclosed adequately that the average ticket size of the company is 18 lakhs and the people who take these sorts loan even in metros, if it is 25 to 30 lakhs in account to up country location it is only 10 to 12 lakhs. So naturally the company will end up in LIG and that to the first time home loan buyers. This qualifies for CLSS, if you are qualify in another town the other criteria of CLSS, even otherwise always will qualify for affordable housing fund.

Ayushi Mata: Sir has this composition changed over the years?

Sarada Kumar Hota: Composition?

Ayushi Mata: Sir like the percentage of LIG, MIG?

Sarada Kumar Hota: No, it has not changed. The company has been primarily lending to LIG and MIG-1 it is something like 60:40 in that range you can take.

Ayushi Mata: Thank you.

Moderator: Thank you. Next question is from the line of Shubhranshu Mishra from Motilal Oswal Securities. Please go ahead.

Shubhranshu Mishra: Good morning Sir. Thank you for the opportunity. Just wanted to know how many bank lines you have and if you can trifurcate the bank lines in terms of non-PCA PSU banks, PCA PSU banks and primary banks?

Sarada Kumar Hota: I think we are asking too much of stratification. Whether the money has got any colour from which source it is coming.

Shubhranshu Mishra: Well Sir that is something to understand?

Sarada Kumar Hota: Only thing I have disclosed and that your are aware your CanFin parent is Canara Bank, it is a non-PCA bank, it is a very strong bank and the most of other players certainly they are strong bank.

Shubhranshu Mishra: You could help me with the number of bank lines that is a fairly simple thing.

Sarada Kumar Hota: I think the amount of – it is not the number of bank lines, which matters, it is the amount to that matters. Quantum wise, we have disclosed in our press release.

Shubhranshu Mishra: Thank you.

Moderator: Thank you. We take the next question from the line of Puneet Mital from Global Core Capital. Please go ahead.

Puneet Mital: I just wanted to again move back into the previous question regarding the yields, that your yields are come down to 7.99% because I think in some of the previous calls, you mentioned that 97% of your book is slow doing, so if it is an annual reset, it means that all the book should have been reset by now and on the new loans, and especially because there have been disbursement non-salaried loans, which would be at higher rates, should your yield not be under pressure anymore?

Sarada Kumar Hota: Certainly, you are very right Sir. I think it is not 7.9% and it is 9.99%, which used to be 10% for last quarter. It is 10% and then now it is 9.9% and certainly with the present rate, it cannot be less than this. I think do not ask me to explain in so many words. This is evident with the present rate of interest and I think it should not come down further.

Puneet Mital: Just one more, do you have deposits taking life insurance so what is the effort on those lines to increase the deposits taking funding?

Sarada Kumar Hota: Yes, we do not take deposits, public deposit as well as from the company in the future. Both the lines are open and the branches it is ongoing process, only thing is it is not much of trust in the – deposit taking. Certainly that is one of the windows of resource mobilisation for the company and we therefore recently fairly good rates and will see going forward from the deposits source as well there will be substantial cash flow.

Puneet Mital: Thank you so much.

Moderator: Thank you. Next question is from the line of Megha Shah from Future Generali. Please go ahead.

Megha Shah: Good afternoon Sir. I just wanted to know whatever incremental disbursements that you have done in the period September 15 to October 15, and do you see any changes in your disbursement patterns post the liquidity issue or you think it is very much on the similar run rate as what it was earlier?

Sarada Kumar Hota: For the company, it is a non-mix, there has been no change and I am talking to you the same way, the same answers that my branches are doing business in a similar way, there has been no the recent resources that have been discussed so much in detail.

Megha Shah: Can you give us number Sir, rough number?

Sarada Kumar Hota: I do not have ready on hand because so far I am running only for board yesterday, and to discuss about the numbers September quarter numbers. Going forward only one thing I can say that yes Q3 certainly is the best quarter historically amongst all the four quarters, Q3 is to be the best quarter, we can assume good number.

Megha Shah: Thank you.

Moderator: Thank you. Next question is from the line of Sagar Shah from KC Shares &Services. Please go ahead.

Sagar Shah: Good morning Sir. My question was regarding to the maturity of your borrowings and assets actually in the next one year, I wanted to know what percentage of your assets are maturing in this current year, and what percentage of your borrowings are maturing? And my second question what percentage of the book is being linked to the new rate of interest actually that you have clocked from April 1, 2018?

Sarada Kumar Hota: The new rate, really the annual reset both came from April 1, 2017, not from March of 2018. So already we have done something like 18 months, so most of the loans either experienced annual resetting, only bad part, which has, we were not offtake for annual resetting because that offer was given to all the customers. They can switch about the annual resetting mode. If somebody has not taken then as and when that increases immediately, it increases. So first time when they come for annual resetting, they have to pay ISD and service. During the course of the year, somebody wants to change the rate to reduce his rates from if it is being high, then he has to pay ISE and then change, so to that extent, reprising every month on all the new disbursements after April 1, 2017 everything month some tough loans, which we have disbursed, in the account comes for reprising. That apart from those loans, which we were outside the purview of annual resetting almost we can take something like 35% or 45% of the loan that will come for reprising with every same documentation. As far as the liquidity position for next one year you asked I have given in the presentation for last three quarters, I think it is satisfying. On liquidity provision again slide #11 in the presentation, you can have that.

Sagar Shah: Yes but it is not given that how much is it actually maturity actually, how much of your liabilities is maturing? I am talking of the liabilities, how much percentage of your market borrowings or of your banks are maturing in the next one year?

Sarada Kumar Hota: If you are interested in my ALM, then you can go down to my ALM the March annual report there will be resetting both individual NCDs and CPs you will have them.

Sagar Shah: So basically you are seeing your 35% to 40% of the book is still to be reprised right, yet to be reprised according to the newer rate of interest?

Sarada Kumar Hota: No, only those loans since we are giving last year from the month of October to March, will keep on every month.

Sagar Shah: Okay, but before that they cannot be reprised?

Sarada Kumar Hota: No before one year, they can be reprised.

Sagar Shah: Before one year.

Sarada Kumar Hota: If somebody wants to reprise for a lower rate, then he has to pay and reprise that. He has to pay highest interest service and then reprise.

Sagar Shah: Thank you.

Moderator: Thank you. Next question is from the line of Bhavin Shah from Sameeksha Capital. Please go ahead.

Bhavin Shah: Based on everything that you have said so far, is it fair to conclude that unlike the second quarter where your interest expenses grew much faster than interest income, that trend will reverse in the third quarter?

Sarada Kumar Hota: I think asking for a quarter projections, I would like to make some consistency then I will tell you. Going forward certainly you can see that the yields should be improving, if the costs are rising, I told you, the levers to those are available to the management are the changing the mix, both in asset sides as well as in the liability side. Liquidity has not been an issue for us. Borrowing has not been an issue for us. The people are willing to, the banks are willing to and the market is willing to lend the CanFin. That worry is not there. So going by is the pricing power is as long as I am in a position to pass on the cost, I think whether cost is coming down, the cost is going up or yield is coming down, it does not matter much, if my yield is improving in tandem with the increase in cost I think we are fine. As long as I am in a position to withhold into my margin, so that is what I told as we looking, if you ask me, yes only thing I say that 3% plus margins are comfortable for me. This quarter we have seen so much of increase in the bond yield, the tightening of the market, and all those things. CanFin has been in a position to hold down to margins from 3.18%, it is 2.17% now.

Bhavin Shah: The spread over MCLR has gone up, so still you are able to do it because the competition has kind of come down, is that a correct interpretation?

Sarada Kumar Hota: That is what helped me in growing the loan book faster because the rundown will collapse. If the balance transfer is a full stop, then whatever loan I am creating that will remain on that. That is segmental.

Bhavin Shah: Last question your presentation is completely quite on any kind of technology initiatives that you might want to take in order to win business, it is purely focused on the good old branch expansion strategy, so can you talk about I mean there is lot of technology enable in the younger players, new players in the market, how when you compete with them, can you talk about please? Thank you.

Sarada Kumar Hota: I think there was a question again in the last quarter earnings call, we do not give any breakup if I am going to change and bring in some drastic change as far as technology is concerned, but certainly, one thing has improved for CanFin is now it is we get lot of believes in the sourcing takes place through the online mode. Financially the company has been doing, there is nothing great really that we should be concerned about, certainly in near future, we are going to see a new website for CanFin, with so many changes in the features in terms of source thing in terms of the customer grievance, the interaction with customers, all these things will improve. We are working on. It is not that we are not investing on technology. We invest huge amount on technology, but I think for a home lender, in particularly a retail home player like CanFin, it is primarily the work is at branches, the happenings at the branches in the filed, that matters a lot. Because my clients even though I do something drastic in terms of technology, my clients should be amazing, he should be upgrading himself. Otherwise what happens is you invest so much whereas you do not reach out to your customers. Nothing can replace from banking and that has been the proto of CanFin, as far as sourcing model is concerned, our delivery or service is concerned certainly we equally competent and we have all models at par with the best in the industry.

Moderator: Thank you. Next question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: Sir I wanted to know what is the outstanding borrowing from Canara Bank and what is the cost at which you borrow from Canara Bank?

Sarada Kumar Hota: I think the question you are asking; I disclosed all my bank names, the borrowings, everything in my annual report. You later refer to that. One thing I told you I am paying mostly the bank they give the best rates, but they cannot lend below their MCLR.

Yash Agarwal: So my question, are we getting any subsidized loans from Canara Bank?

Sarada Kumar Hota: No. For Canara Bank also even though they are the parent, they cannot lend below their MCLR, they cannot subsidized to the same.

Yash Agarwal: Actually Sir if I make a rough calculation from the annual report, we have got an average loan?

Sarada Kumar Hota: I think this thing you can do the maths, and we can wait for next annual report, again I will disclose.

Yash Agarwal: Last question how much was the total CP outstanding right now?

Sarada Kumar Hota: The CP is something like around 15% to 16% will be the average holding at the point in time, and when the annual rundown on the book is around 20% plus, I assume, the original one is 17%, we never exceed to that level.

Moderator: Thank you. Next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, you give 19500 Crores target for 2019, which is too much tough because for debt you have to grow 15% in six months, so is it possible?

Sarada Kumar Hota: Sir this thing what you are telling, I am also concerned about. It is not that we are oblivious the number that we are giving.

Ravi Naredi: Not obligation, I am not talking obligation, just I am asking to whether?

Sarada Kumar Hota: I am telling. I am not obligating. It is not I am not concerned about that. We are concerned about, we are not oblivious about the target that is there before us, but that target was, right now with I do not want to change anything because the position is so acute, I think we recur one or two months more to see that how growth pans out. We are expecting everything positive, we expect that competition is going to pull up a bit, I am going forward, we can say at what level we can reach, and as we are maintaining, I never believe in really changing goal post. There are so much changes happening, you do not know that, who had known that whether the banks, or HFCs are borrowing differently, or they were lending differently. They have been borrowing at the same way, they were borrowing, somebody asked me a question whether anything has changed for Canfin beyond the September, no, we are doing business as usual. As long as I know what is my annual cash flows, or what is my monthly cash flow and what is my payout during the month. Then liquidity is not an issue. If liquidity is not an issue, why grows have been an issue. So let see some things are looking up, there are positive signs of disbursement picking up, new approvals picking up and our company has grown to the all those potential growth centre, so let us expect that we will clock with numbers, I will not comment on 19500 Crores my guidance as of now.

Moderator: Thank you. Next question is from the line of Rahul Seth, an individual investor. Please go ahead.

Rahul Seth: Good morning. We have people on deputation from Canara Bank senior people, then why do not we do that even branch officers also say for example West Bengal, we have no exposure, there are no branches in West Bengal except for Durgapur right now, there is lot of potential of business in West Bengal, Sikkim and even north northeastern states, we should get people on deputation from Canara Bank who can speak Bengali, and we can increase the business over there.

Sarada Kumar Hota: Thank you Sir. It is not that CanFin has got anybody, all the employees of Canfin who belong to Canfin except for NDNDND who are on deputation from Canara Bank has directors on the board. There is no employee who is on deputation from Canara Bank. The company has grown in that way and this deputation mechanism, we will never had up to so far. Another thing is as far as our expansion in West Bengal is concerned, the company has got very good number of Bengali speaking guys and my Durgapur employee they speak Bengali. I can also talk Bengali, and I speak very beautifully.

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

Nirmal Bari: Thanks for taking my question. I just had one question, what is the percentage of our loan book that will get reprised in the next six months, our existing loan book?

Sarada Kumar Hota: Existing loan book in next six months what ever was granted in last six months, the previous year second half, we will get reprised in the next six months.

Nirmal Bari: So that is the only part that is going to get reprised and there is something from the previous years?

Sarada Kumar Hota: No that apart from the previous year, as I told you almost it is something like around 35% to 40% of loan book which is outside the annual resetting. Whoever has not opted for annual resetting when I increase the interest of rate, it gets reprised immediately, annual resetting facility is available only to those people who have opted for or all those new launched granted after April 1, 2017. So every month a portion will come, one bunch of loans will come for reprising.

Nirmal Bari: That is all.

Moderator: Thank you. Ladies and gentlemen this seems to be the last question in queue for today. I would now like to hand the conference to the management for their closing comments.

Sarada Kumar Hota: Thank you. It is really lot of learning for the management as well. And every time whenever we interact post the quarterly numbers, it is more than we inform there is always some points that we take from you. I thank you all of you for that and the festive season is ahead. I wish all of you Happy Dussehra and Happy Diwali and Merry Christmas to all of you because we will be meeting once again only after the Christmas with the December Q3 numbers in the month of January. Let us hope that New Year brings in everything good for your company as well as for all of you and all of us here in CanFin. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Investec Capital Services we conclude today's conference. Thank you all for joining us. You may now disconnect your lines.