



“CanFin Homes Limited  
Q2 FY2020 Earnings Conference Call

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**Moderator:** Good day, ladies and gentlemen, and welcome to the Q2 FY2020 Earnings Conference Call of CanFin Homes Limited 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 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:** Thank you Margaret. Good morning, all. Welcome to the Q2 FY2020 Earnings Conference Call of CanFin Homes Limited. To discuss the financial performance of CanFin Homes and to address your queries, we have with us today Mr. Girish Kousgi - MD & CEO - CanFin Homes Limited, Mr. Shreekant Bhandiwad, Deputy Managing Director and the management team. I would now like to hand over the call to Mr. Girish Kousgi for his opening comments. Over to you, Sir

**Girish Kousgi:** Good morning. With me, I have Shreekant Bhandiwad, who is the Deputy Managing Director; we have Shamila, who is the business head; and we have Joishy, who's our CFO. So we had a good quarter and good H1. We were able to do well given the market conditions. On interest income, we've grown by 20%. On interest expenditure, again, by 20%. So our NIM has gone up by 19%.

NIM has increased to 3.21% from 3.18%. I am giving H1-H1 comparison by [year-end]. Our yields have been better. There has been an increase in PBT as well as PAT. All of us know in last 1 year, there are a lot of challenges with respect to liquidity. In spite of that, now we were able to maintain our cost at 7.95%. If I compare this with the last year, it has gone up by 5 bps. It was 7.9%, now it is 7.95%. Our spread has come down from 2.31% to 2.28%. As of June, it was 2.3%, now it is 2.28% so that is around 0.02% lower.

If you look at our opex, it has slightly gone up and that is largely because of manpower cost and CSR. Manpower cost is due to addition of new staff and the normal increase in salary. And of course, last year, CSR, we spent a significant portion in H2, whereas, in this year, we spent in H1 and therefore there is a slight increase. However, CSR spend for the whole year would remain almost same.

On asset quality, there has been slight increase on a quarter-on-quarter we have increased from 0.63% to 0.79%, but what is important to note here is that our Q2 incremental NPA has dropped by 25% compared to Q1. And all the efforts, what we have done in Q2 and Q1,

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will develop in Q3. We have a good stock of repossessed properties, which is materialized in Q3.

So our net NPA has gone up from 0.42 to 0.58. This is on H1 Y-o-Y basis. There was increase in book by about 16%, 15.8%. On the approvals and disbursement, it was pretty flat and that is understandable since we were little cautious even though there was enough and more demand in the market. There is no change in demand, however, there are certain challenges on the supply side, largely from developers where they were not able to complete the project. And therefore, they were not able to complete the sale, and the new projects have come down. We are not impacted by this since we operate in different segments and different geographies, and our profile would be a little different and the first-builder projects would be very small on a number of units, low rise where we start funding only when the project is almost 70% to 80% complete and therefore, we are not impacted in terms of completing the disbursement. However, on the demand side, there has been some impact from the builder side.

On the liability mix, it is almost pretty same. Our bank borrowings contribute to 52%, NHB is 13% and market is 33%, CP is 15% and the balance is NCD. There has been a slight change in the mix, I think because I think bank borrow has slightly gone up, NHB has slightly gone up and the market has come down.

Even during H1, in spite of all these liquidity challenges, we were able to raise about Rs. 3,260 Crores from banks as well as market. We have unutilized limit of close to Rs. 2,200 Crores, this is largely from banks and 1st September, we are holding sanctions of about Rs. 1,400 Crores.

Just to talk about commitment for H2. Towards borrowing it is about Rs. 3,600 Crores and lending is Rs. 3,500 Crores. So approximately, it comes to about Rs. 7,150 Crores and we have Rs. 2,921 Crores available with us and first sanction of Rs. 1,400 Crores and Rs. 3,100 Crores of collections. So the total commitment is Rs. 7,150 Crores and funds available is about Rs. 7,500 Crores, so it is almost matching.

Just to talk about the mix, we largely focus on home loan. It is much safer compared to non-home loan. Our home loan proportion is 89%, non-home loan is 11%. Out of non-home loan, we categorize top-up as non-home loan, actually it is an additional loan given to a home loan customer after a certain period, depending on the repayment track record. So it is as good as home loan. So our LAP contributes to about 5%.

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In terms of profile, salaried and SEP is 71%, SENP is 29%. I think by design we kept SENP proportion quite low since there is a lot of stress in the market for last 24 months and we have seen in home loan industry, the increase in NPA is largely contributed by this segment. So we generally operate in up to 25 lakhs ticket size and proportion, we have almost 70% of portfolio up to 25 lakhs and more than 50 lakhs is hardly 4%, and more than 1/3 would be hardly it will be less than 60-odd cases.

On the way forward, we want to keep our product mix this way, largely focused on salaried and SEP. Self-employed, we would definitely focus but depending on geographies, which traditionally has lower credit losses, where the repayment culture is good, focus on small ticket, focus on safe collaterals and safe profiles and safe variants.

In terms of geographical mix, our focus would be on Tier 2, 3 and 4 cities because these are the cities where we see less competition and we have power of pricing, whereas in top cities, there is enough and more competition, especially from banks and there, we have to take cut on margins and therefore, in big cities, we will focus on the outskirts, otherwise, our focus would largely be on small towns and cities. Our effort will be there to increase NIM and spread.

I would like to open this forum for any questions on earnings.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Nirmal Bari from Samiksha Capital. Please go ahead.

**Nirmal Bari:**

Thank you for taking my question. My first question is on the gross NPA increase. Typically, Q1 is a quarter when we see a large proportion of increasing gross NPAs, and then Q2 onwards it starts moderating. But this time, Q2 also has seen an increase. So if you can throw some light on where is this gross NPA coming from and is there a particular reason, say, SENP or something, where we are seeing higher proportion of NPA baggage? First. Secondly, if you can give an EBITDA around what's the current outstanding number of properties that we are having, that we would be looking to liquidate in Q3 and which would result in lower NPAs?

**Girish Kousgi:**

Sure. So if you look at the NPA, there has been reduction compared to Q1 by 25%. Now there has been a slight increase in NPA. It is not confined to any particular geography, but it is a restricted profile, obviously, it is SENP. Now we have done a lot of work in Q1 and Q2. We have repossessed assets close to Rs. 26 Crores. Out of this, at least 65% to 70% would materialize in Q3. And you will see this trend of NPA dropping quarter-on-quarter. There

are a few other reasons. The reason is our principal recovery, either through settlement or through sale is more than 100% at the enterprise level. Since our recovery is more than 100%, and we actually give sufficient time for borrower, if borrowers' intention is good to come and settle. And meanwhile, we will try to assess and if we should feel that we need to go again to the customer, that is when we actually clear.

The trend for next few quarters on NPA will be that, no, it will keep coming down, and this is because our ticket size is lower. We fund in geographies where property values are not very high. I am talking about property price because higher the property value, the distress portion would be higher. So the property value when the bank or HFC wants to sell, what they would realize will be much, much lower. But if the property value is lower, the virtue of tickets has been lower so the recovery would be much higher. And therefore, our cost loss is absolutely 0.

**Nirmal Bari:** In how many cases would we have issued SARFAESI notice, this number was available for previous quarter in the presentation and it was about 1,200-odd to be precisely. So what would be the number?

**Girish Kousgi:** SARFAESI action initiative would be it is about 800-odd cases. What we have repossessed is close to Rs.26 Crores.

**Nirmal Bari:** Okay. 800-odd cases. Since the next question, again, is on the NPA. So the provision that we have been doing has continually come down since Ind AS was applied. So at present, for specifically for stage 3 asset, what is the lost even default assumption?

**Prashanth Joishy:** No. Stage 3 asset. For stage 3 assets, we are following the IRAC norms. We are making the provisioning considering 100% provisioning on the safer side. But when we calculate, we consider the realizable value of the security to the extent of 90% and then we calculate. That comes below the IRAC norms what NHB has given. So we are measuring the provision as for directly norms only because ECL model always be the leverage under the value of the security. And we always have with us a good securitization of coverage. It is only the time gap that is creating network for fixed-currency income. So it will be a provisional as such and the time gap that is creating the provisional assets.

**Nirmal Bari:** Okay, we are still providing as per the IRAC norms and which would typically we are higher than the ECL provisioning that we would be required, is it correct?

**Prashanth Joishy:** Yes, absolutely.

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**Nirmal Bari:** Sir, secondly in this quarter there was a deep decrease in capital adequacy ratio from 9.59% to 18.52% and this was hardly decrease was from tier 1 capital adequacy, so was it that change quarter-on-quarter to lead to such deep decrease.

**Prashanth Joishy:** Yes. It is actually the loan sanctions was not discussed. It was a positive point for the company. We have sanctioned the loans where the disbursement is yet to take place, for which the risk coverage, we have to give 50%. On account of that, it has come to 18.86% from the 19-plus percent asset. So going forward, we have to improved sanctions for the purpose of disbursement, which will improve the AUM of the company assets. And the requirement as far as RESI sits at 12%. Going forward, it is 15%. We are well above that mark comfortably.

**Nirmal Bari:** Last question is towards the Kousgi, you have joined CanFin two months back, what is your strategy for CanFin going forward and what kind of growth though anticipate, I understand that there is vision occupant, which we are following would you like to make change on those on that vision of event and what kind of growth are you looking for given CanFin's network?

**Girish Kousgi:** So this is not guidance, but just to answer your question. The focus would be on going forward focus would be on, largely, 3 things. One is, of course, growth. When you talk about growth, industry is expected to grow at about 11%, 12%, we will be growing much above industry growth rate. Now the second focus is going to be on asset quality. Asset quality is largely driven by geographies, where we do business; ticket size, which we want to focus; and the profile to whom you want to lend, and the collateral what you want to lend, and the variants in those which we want to sell. Now these 5 things, largely, would lead to a better asset quality. On ticket size, as I told you, we want to keep it at about Rs.17 lakhs, Rs.18 lakhs. On segments, we want to focus only on verified income. On collateral, we would focus on self-occupied and partly without residential and commercial properties. So asset quality is going to play a very, very major role in future as well. So that's our priority.

Number three, there will be constant effort to increase NIM as well as other income, when I say other income it is about insurance. So these 3 would be our focus.

And the fourth, a very important thing is our liability, position and mix. So we will be tracking ALM very, very closely. And as I told, we are able to raise funds at a much lower rate in H1. We are sure we will be able to maintain that in H2 as well, so not much of changes. There are small tweaking here and there required, which is an ongoing basis. So

that is anyway we are doing. The model is good. This model has helped us to focus what CanFin had in the past and what we are going to have in the future. Nothing is going to change much but yes, we are focusing more on profitability, on asset quality and growth.

For example, you will see our NIMs going up in quarters to come, spread bettering, our others no fee income would increase since there is now focus on that piece.

**Moderator:** Thank you. The next question is from the line of Punit Mittal from Global Core Capital. Please go ahead.

**Punit Mittal:** Thank you for the opportunity. I think I have asked this question a couple of times before as well, I do not see much progress on your deposits, why it happens, what are your plans on those lines?

**Girish Kousgi:** Thanks for raising this question. Yes, we were not actually focusing on deposits primarily because of the cost involved in raising deposits. Now, compared to our costs, so deposit raising cost would have been huge higher about 7% to 8%, so now, there will be focus on deposits as well, so now we are going aggressive on raising deposits because we feel that long-term stable retail deposit would help the company in future and therefore now there will be focus on deposits.

**Punit Mittal:** Okay. Great. The second question and I think, probably, it is a bit of hypothetical question. Naturally, there are news and rumors, and we have probably known a few days about the Canara Bank's decision on financing homes. But the hypothetical question here is that, let us say, the new promoter or parent would be if the promoter or parent is a private equity company. Currently, I think you do enjoy a good perception and goodwill in the market and probably also credit rating because Canara Bank or PSU is the parent or the promoter. How does that not change if Canara Bank is the promoter of the company?

**Girish Kousgi:** Canara Bank has been as a parent, and they have extended all support, which parent has to extend to the subsidiary. So going forward, I do not see too much of a difference because primarily what drives the rating or at what rate you can borrow from market or from banks or at what rate you can do deposits largely depends on sales of the company. As long as you know, we are able to grow, maintain our margins and have good asset quality. I do not think so there will be too much of a difference but for a bit of perception, which should probably because there are so many positives and negatives which come with any particular decision. So I do not think so there will be much of an impact because largely it depends on how well you run the company and maintain all the margins.

**Punit Mittal:** Okay. So just on those lines and for the bank's funding that you have about 52%. How much of that funding is from Canara Bank?

**Girish Kousgi:** We actually have many banks from whom we borrow. In fact the largest funding is not from our parent.

**Punit Mittal:** Would you be able to give percentage or no?

**Prashanth Joishy:** Yes. Sure. This is Joishy here. See the bank borrowing actually the parent have a restriction that the exposure to the related parties is restricted to the 10% of their Tier I capital so their exposure is restricted to that amount as such. Major lender to us is the State Bank of India. Apart from that, we have other private sector as well as other public sector banks in the line. We have given the disclosures in our annual report, clearly in this regard as well as the percentage rate which we borrow as such.

**Punit Mittal:** Noted. Thank you so much and all the best.

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

**Omkar Kulkarni:** Yes. You have said that there is sufficient amount of capital with you and the growth is also not that high which it used to be. And you have mentioned that you are looking to raise around 1,000 CR so that is only a provision you have taken? Or is there anything on the card, financially we are looking for?

**Girish Kousgi:** Yes. So I think there is enough opportunity for growth. I did mention that at the beginning, there is enough opportunity for growth. And what we have mentioned about Rs.1,000 Crores is only enablers.

**Omkar Kulkarni:** Okay. But the enablers you have taken. Okay. And if you can throw some light on the Bengaluru or the South market in which you have the major presence. How that has grown? And how quality was there and new sanctions as well, if you can spell about that?

**Girish Kousgi:** Yes. I think the proportion of business from south remains at about 70% to 71%. And given the dynamics in south, largely, the profiles are SEP and salaried. And therefore, even that percentage is about 70-odd percent. Now the balance 30% is from other geographies. So historically, there are certain good markets, some in north, some in west and some in south. So these markets have good repayment culture. So since we have that advantage in South

and this is by desire and design both, so the portfolio quality would definitely improve from here. It will improve from here on. So we see demand coming back in Karnataka. We see Hyderabad and GP market growing. And we are not present in Kerala, so we will try and expand our network in Kerala as well as other states over a period of time.

**Moderator:** Thank you. The next question is from the line of Shiva Kumar from Unifi Capital. Please go ahead.

**Shiva Kumar:** I have 2 questions. First, if you can give us a sense of how much do you anticipate the margins to improve over the next six months? And second, in terms of our raising funds, is this deal negotiation currently underway by our parent in any way affecting our ability to raise the funds in terms of quantum or the price?

**Girish Kousgi:** Just to answer your first question, I would not be able to comment as to by how much percentage or how many BPS we will be able to grow, but yes, the focus is to grow and we will explore, look for opportunities in every single market to try and improve our margins. As far as the second point is concerned, it has got nothing to do with the transaction per se, it is from a company's point of view, we feel that there needs to be additional capital and therefore in enabler is sort.

**Shiva Kumar:** In institutional funding refinancing, any particular timelines that which we are expecting that hire cost funding to get lower and the cost to come down?

**Girish Kousgi:** Our cost is now 7.95%, which is one amongst the best in the industry. We would want to maintain and further improve positive loan cost in the future as well. It all depends on the market situation, so all our long-term funds are tied up with pretty attractive rates. Only thing is we want to slightly tweak the mix and therefore, there will be a lot of focus on deposits and our CP as a proportion of overall in the mix is quite low, and we do want to keep it that way.

**Shiva Kumar:** But Sir, in the opening remarks, you indicated that the cost of fund was 7.9% a year back and it is 7.95% currently. Is there any phenomenon?

**Girish Kousgi:** You are right, so from 7.9 it has gone up to 7.95, it is an increase cost by 5 BPS, you are right.

**Shiva Kumar:** But in the interim there have been significant cuts, so in due course, these significant cuts by the Central Bank should naturally affect your funding cost rate should come down, is that a fair assumption?

**Girish Kousgi:** I would not be able to comment, but if you look at what is happening in the market, if the market condition eases out in terms of reduction in the benchmark that would have some impact in the reduction of cost of funds, so today we are well placed to get best rates from banks and also from market, so we will try and keep exploring to keep our cost of funds low.

**Moderator:** Thank you. The next question is from the line of Ritesh Bhagwati from Rockstud Capital. Please go ahead.

**Ritesh Bhagwati:** Thanks for taking my question. My first question is what is our ALM profile as on date, if you can provided with some details from the newer term perspective let say if like approval also?

**Prashanth Joishy:** This is Joishy here. From the year end perspective as we have shown what we presented at the annual report about last year the same trend has been continuing and maintained. And as explained by MD Sir, in the presentation, the commitment up to March, what we require is what we hold. We have around Rs.300 Crores senior bonds and assets. And subsequently, we have a couple of brand sanctions also, which are in a negotiable stage. We have an unutilized market exposure to the extent of Rs.4600 Crores is there. So with all these revenues, the liquidity position or the funds position is taking care of the future projected expansion also. There is no mismatch in the ALM as of now. And we have hope, and it will not be there as what we projected.

**Ritesh Bhagwati:** So we would be comfortable with our targets to meet?

**Prashanth Joishy:** Yes, very comfortable as such.

**Ritesh Bhagwati:** Lastly, on a yearly basis how do we see our asset quality to be, like will it be in NPA 0.6 to 10.43 on a full year basis, so do we expect to be inline with that kind of number or that will be better according to you?

**Girish Kousgi:** Our NPAs going forward incrementally, new additions should keep dropping number one. Since we are maintaining our profile mix, geography mix, product mix all those things impact, or rather we are trying to improve from our current position, so our incremental

NPA should keep dropping in the quarters to come. The reason for saying this, is on two fronts, one is the book what we are originating is not that risky on comparable terms A. B. We are holding a lot of stock, which we can try and either initiate and put a closure at the SARAFESI or final settlement since we have seen more than 100% recovery on PoS, we are in a comfortable position to bring this percentage down.

**Ritesh Bhagwati:** Lastly, what is our PCR ratio as on date?

**Girish Kousgi:** 25%.

**Ritesh Bhagwati:** Are we comfortable with that?

**Girish Kousgi:** Yes, we are comfortable.

**Ritesh Bhagwati:** Thank you. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Dhagash Shah from CD Equisearch. Please go ahead.

**Dhagash Shah:** Good afternoon and Sir, my question is that what are the type of assets in stage 2 loans?

**Girish Kousgi:** Stage 2 loans are consisting of those loans, which are in the 0 to 30 and 30 to 60 BPS.

**Dhagash Shah:** Correct, and what would be the medium size of these loans?

**Girish Kousgi:** Our ticket size is about 17 lakhs to 17.5 lakhs.

**Dhagash Shah:** No, I means of a stage 2?

**Girish Kousgi:** It will remain the same, I will give you the right, you see it is about 17 lakhs.

**Dhagash Shah:** Sir, no majority of LAP or site loans you are?

**Girish Kousgi:** Let me give you the breakup, LAP is about 5%, and plot is 1%, so 94% is as good as home loans, only because top up we categorize as non-home loans, if you say 89% is home loan and 11% is non-home loan, if I exclude LAP and plot, it is 94% is home loan and almost our 99.8% of lending is to individuals.

**Dhagash Shah:** Alright and Sir, could you just give me the highest exposure to your LAP book?

**Girish Kousgi:** We have about 60 cases more than 1 Crores, this is overall, all LAP, EHL all products put together, LAP could be hardly, I do not even remember how many cases we have exposure of 1 Crores for LAP, we can come back to on that. We do not do chunky loans, we generally operate between 10 and 25, 30 lakhs kind of ticket size, so more than 50 lakhs is about 4% and more than 1 Crore is less than 0.5% or 0.6%.

**Dhagash Shah:** Alright. Thank you for the opportunity and all the best.

**Moderator:** Thank you. The next question is from the line of Shubhranshu Mishra from Bank of Baroda Capital Markets. Please go ahead.

**Shubhranshu Mishra:** Thank you for the opportunity. My first question is slightly conceptual. I just want to understand, given that we have a focus on Tier 3, Tier 4 cities and on salaried class, how do we compete for the likes of PSU banks like SBI, which have better cost of funds than us? Why should the salaried class in Tier 3, Tier 4 choose us versus SBI?

**Girish Kousgi:** Very good question. See, we are not competing with banks.

**Shubhranshu Mishra:** Right, so how do we source the salaried custom in that case?

**Girish Kousgi:** Exactly. So our profile would be different since we are focusing on Tier 2, 3, 4. So in these markets, so there is less competition from banks and we have a dusted service. We have various sourcing models, and our TATs are better and our advice to customers on the property, on legal and technical presence is far superior. And therefore, we are able to grow business in these markets. We do business in big cities as well, but that is not within the city. It will be the outskirts because now, since the competition is not banks, there could be 10%, 15% overlap because whichever market talk about, we have PSU banks all over northeast locations. However, considering our product proposition, our service TAT, in order to get better business and better share.

**Shubhranshu Mishra:** So if I understand it correct, you are trying to put across that the salaried customer in Tier 3, Tier 4 city is interest rate agnostic. You would come to us that we are charging almost 10.2% on a portfolio basis. Whereas SBI would get me a loan at around 8.5%, 8.6%, so are these salaried guys willing to pay us 200 BPS more?

**Girish Kousgi:** In the small market, these are not price-sensitive markets compared to top cities. In top cities, no it is like this. Higher the loan, better is the negotiation, which happens on pricing. The lower the loan amount, they are not that rate-sensitive. At the same time, we screen the

profile, and we are available there at customer's place. And therefore, we are in a better position. As I told, it will not just salaried, it is salaried and SENP also. But depending on the geography, the mix could vary since we are present in most of the geographies there the salaried in the city profile, our proportion is more. Our portfolio competition is in a single fashion. Once you go towards north, of course, you would have a slightly higher proportion of self-employed nonprofessionals. But at the enterprise level, we want to be largely skewed towards salaried and SENP.

**Shubhramshu Mishra:** Sure, and my next question is understanding your risk management, how many people do we have in the collections team, how many collection agencies we have and if you can explain the entire architecture of the risk management?

**Girish Kousgi:** So, let me start from onboarding, so we operate little differently in other institutions. Every customer is being met by us employee, every single customer and we have a model base, the branch does collections, so we have a cheque and balance for underwriting where we have centers where the file gets processed for certain value and above, otherwise our model is branch model where the branch team does sales, little bit of underwriting with the check and balance and collection. Now, we also have a vertical, basically we have different strategy for different buckets, for soft bucket we use the branch, for hard buckets we use the vertical team, we use agencies, so it is the blended model, so it is not completely agency model, it is not completely branch model, so we have a blend to manage X bucket and bounce we have a different methodology to manage early buckets we use the branch now because it will be far more efficient and easier to collect, for hard bucket we use agencies.

**Shubhramshu Mishra:** Sorry to interrupt, just can you give some numbers, what you define as early bucket because it could be different for different HFCs, so what do you define as early bucket, how many people you have in the collections vertical?

**Girish Kousgi:** So, basically up to 60 days these are early buckets, so X-bucket and 1 to 60 has early buckets, 61 to 90 and 90 plus should be hard buckets, and anything more than 180, for example, we would use agencies, if you see there is a need, so that is very flexible, it is a city specific, geography specific kind of need, based on the need we try to manage this.

**Shubhramshu Mishra:** Right, how many people in the collection verticals, 61 to 90 and how many collection agencies you have of 180, DPT plus?

**Girish Kousgi:** So, that will be very difficult for me to give you affront for the simple reason for most the geography let us say in south, we were able to do it from branch model, so certain

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categories we are using vertical, for certain geographies we are using agencies because our total entire staff will be hold in collection of early buckets, manage bound to reduce X-bucket, to tele call, to visit customer and collect an early bucket, it is difficult to give you the number it is more of what you have done we try to have both centralized as well as decentralized, so early bucket is more of centralized its strategy is being driven centrally whereas for hard bucket we use vertical, we use agencies and also from centrally we drive this.

**Shubhranshu Mishra:** Sure, and just one last question, this is a data keeping question, what is your borrowings number for the first quarter and the second quarter and my request is to please mention this on the investor presentation, it has never mentioned on the investor presentation?

**Prashanth Joishy:** This is Joishy here. We will take a note of that, we will incorporate in the next presentation about the size what we borrowed as such, as a borrowing we do from the banks as well as from the market, I think borrowings is only for the purpose of cost leveraging much not for the long-term lending because ALM we keep it in mind, so according to this the borrowings generally goes in the range of around 60% - 40% of the total lending and commitment as such. We will disclose that in the presentation with the commitments what we have done, in the earlier quarters also we have disclosed, this is in the same range as this is going in the past also, future also it will go in the same range.

**Shubhranshu Mishra:** Got it, just want the number for first quarter and the second quarter what was your total borrowings as of first quarter and total borrowings as of second quarter?

**Girish Kousgi:** As of now, I do not have the number readily with me as such we will given back to you.

**Shubhranshu Mishra:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

**Digant Haria:** Congrats to the whole team. My question is, what is our lowest lending rate right now, thank you.

**Girish Kousgi:** I can talk about average. Lowest would be about between 8.5 and 9 we would hardly have some 1% or 2%, so if you ask me technically, what is the lowest, it could be 8.5-8.6.

**Digant Haria:** Perfect, I got it, roughly everything at 9 and above?

**Girish Kousgi:** Very clearly the focus is on spread and therefore we look for opportunities in markets where we can price differently and improve the spread that is the focus and therefore we not in major cities competing with banks, banks are not a competition.

**Digant Haria:** Right and if you can just talk a little bit more on especially the state of Karnataka because that has been probably growing at the slowest space in our whole portfolio and in generally what do you see on ground in the new areas, which where you are going like is it that we are going at pace we are comfortable or is demand not there or the competition high any flavor on this, as CanFin versus other HCFs that you see around?

**Girish Kousgi:** See, if you actually look at Karnataka, the degrowth, which is there earlier, now the demand is coming back and we can see there is increase in outstanding and there is a growth of 7%, so what we are trying to do it that there is enough and more potential in Karnataka, in other market in south as well as in other markets across the country, so when we talk about demand is there, I am basically talking about a small locations where predominantly loans will be given either for purchase of house, which is ready, which is resale or for construction of the plot or it could be plot purchase and construction and dependence on developers would be low in this small markets number one and therefore any company which would focus on Tier 2, 3 and 4 kind of cities their dependence of builders would be less because you will have very few builders there and even if there are certain projects it will be low rise, number units will be lower and therefore very easy to asses and manage the completion risk A. B. These small markets because of comparatively less competition you would be able to get a higher yield.

**Digant Haria:** My question was more on that in your existing markets are you seeing reduced competition because people talk about SBI and stuff, but I think SBI also does not do any home loans below 8.5-8.6 if you add everything to that 8.05, they hardly give any loans below 8.6%, so in your existing areas where you have been strong traditionally is there any sense of gaining market share or lower competition?

**Girish Kousgi:** See, since last one year there has been issues on liquidity, so what has happened is on the demand side, demand is still there, on the supply side there are two things impacting, one is of course projects, new projects are not coming up and the whole projects, which was not finished is not getting completed, so this is first challenge and the second challenge is on liquidity, so many small players are not able to get funds and even if few are able to get funds, the rate would be much, much higher because of these two reasons number of lenders have come down and therefore to that extent market is available, but yes, if you are

operating in a geography where there is competition from banks because all banks have funds and definitely their pricing would be much lower than any HFC and therefore it is extremely difficult to compete as I told there could be a overlap of over 10% to 15% otherwise it is 16% difficult and therefore we should look for segment and geography where we can try A. Grow and B. Get better yield, so as far as CanFin is concerned we have not seen any challenge in terms of growth and I feel that for the next few quarters this growth would be intact even though the market has shrunk. Even though the market has shrunk, growth will be intact for CanFin for the simple reason that some players have either slow down or stop funding and therefore available market is good enough.

**Digant Haria:** Perfect Sir and lastly this 1000 Crores capital raising, if you can just put these whole things in perspective one the stake sale we just keeps on doing around sometimes that what does the bank think and whatever we can comment on that and that in conjunction with this 1000 Crores capital raise should we see these two events independently or these are connected events, so whatever you can there is talk in public domain, thank you very much?

**Girish Kousgi:** I think stake sale process is on, I think the right time we will know outcome of that and capital raising would be decided may be after sometime, so as of now we have not given thought to that of course we have just put as a enable saying that we would need about 1000 Crores, so we will decide on that maybe after sometimes.

**Digant Haria:** Alright, thank you very much and all the best.

**Moderator:** Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

**Kunal Shah:** So, what is the proportion of the stage 2 assets?

**Prashanth Joishy:** Kunal, stage 2 assets, as we told earlier as it is the early bucket 0 to 60 DPD bucket as such.

**Kunal Shah:** No, what proportion of assets are there in stage 2?

**Prashanth Joishy:** That is what I am going to tell that one, I will just give you the explanation that H1 the stage 2, it is less than 3% of the total book.

**Kunal Shah:** Less than 3%?

**Prashanth Joishy:** To be precise 2.67%.

**Kunal Shah:** Just when we compare with the one of your peers, which is into more or less the similar profile bid in terms of customers less than 25 lakhs, steel is also somewhere around 10.2% odd there we had seen a very sharp rise in GNPL particularly on the individual side and on the sell rate side, but somehow may be we have broadly been able to sustain, so what could be the reason for this kind of disparity between two of the players into the similar category of may be either the customer profile or the geographies?

**Girish Kousgi:** I do not know whom you are comparing with. I think I can talk about CanFin. I do not want to compare with anyone, but I will talk about CanFin why our asset quality is good and why it will be good going forward. There are four, five broad reasons, one is, as I told we focus more on salaried and SEP, which is in comparison better profiles, A. B. We focus on largely affordable, which means lower to good size so diversification of risk and just in case we have to liquidate the asset we would make loss at least on the principle amount. Number three, we operate in geographies, we look at collaterals, which are safe with the sense with focus on residential property and commercial property. We are not into lending alternate collaterals we do not that and we largely consider declared income for our assessment and all our variants is based in declared income and nothing use of surrogate, so because of these four, five reasons asset quality would remain good.

**Kunal Shah:** Any sell downs during the quarter in terms of the entire partial credit guarantee schemes, which has been there, have we done sell downs during this particular period?

**Girish Kousgi:** No, we have not done any.

**Kunal Shah:** Lastly, in terms of the entire disbursement target what we have highlighted in terms of our liquidity schedule, many be even though last time we highlighted that in Q2, we will be doing round about 1300 Crores odd, but thereafter particularly on the disbursements compared to what was highlighted last time if 1350 and 1450, not this quarter we have revised that to 1650 and 1850, so what give us this kind of confidence may be it is more on the supply side that we are comfortable and that is the reason we see this coming through or is it more of the demand and reduced competition?

**Prashanth Joishy:** This is Joishy this side. In the earlier question you must have heard that the capital adequacy has come down to 18.8 why does come down one of the person has asked, at that time we enclosed that we have a planned expansion, but not disbursed the amounts are there, because of which the capital adequacy has come down from 19 plus to 18.8 that amount has come for disbursement now because of that the disbursement is going to

pickup, further sanctions also is on the upper side that is why we have projected a higher disbursement here.

**Girish Kousgi:** Broadly, as a company we see an opportunity here for the next 6 to 8 quarters without changing the risk profile we can grow better than market rate, we see this is an opportunity and therefore we have pretty confident on achieving the numbers what we have declared.

**Kunal Shah:** One last data point, if you can give the GNPL breakup between the sell rate and SENP?

**Girish Kousgi:** Our salaried and SEP is about in terms of percentage in 0.47 and SENP is 1.57, standalone whether it is SENP or salaried is far, far significant better than what is there in the market, but yes, for CanFin if you look at the profile SENP is much higher than salaried.

**Kunal Shah:** In last quarter in Q1 how was it sell rate and SENP?

**Girish Kousgi:** This is at a portfolio level I am talking about because our incremental NPA is in a declining trend, I have not checked this, but it should be in the same proportion I guess or may be slightly SENP would have come down because we have taken some action in Q2 and going forward also we will take.

**Kunal Shah:** No, this increase which was there in GNPL you highlighted it is largely on an account of SENP?

**Girish Kousgi:** No, I guess I did not say that. I am saying out of my total NPA, the mix is like this, so SENP would have a higher percentage compared to salaried not the entire incremental in Q2 is from SENP, no. Only which could be said I need to check that, but I think it will be almost same mix, I need to check that.

**Kunal Shah:** Thank you.

**Moderator:** Thank you. The next question is from the line of Tanay Rajani from B&K Securities. Please go ahead.

**Tanay Rajani:** Sir, thanks for providing an opportunity. Sir, if we see disbursement numbers, it has been coming down over the last few quarters if compared to the Q4, any specific reason for the same and how do we see this going ahead?

**Girish Kousgi:** I have spoken market, opportunity and focus on asset quality, in last 18 to 24 months there is stress especially in home loan market, so we will also quite watchful in terms of trying to scale up in which geography, which product, which segment and stuff like that, now we see Q2 being better than Q1 we see a lot of opportunity so going forward this will go up, if you compare H1 of last year and H1 of this year, it has been flat. It is more because of the market situation and also that we wanted to focus on asset quality and other parameters rather than growth.

**Tanay Rajani:** Alright Sir and in terms of the asset growth, how do you see the second half of the year going ahead in terms of growth?

**Girish Kousgi:** So, what has happened is that given the market situation the foreclosures have come down and we see growth potential in the next couple of quarters, so there should be a slight increase in the growth book as well because of these two factors, one is growth and second is foreclosure.

**Tanay Rajani:** Alright Sir, thank you.

**Moderator:** Thank you. The next question is from the line of Rushali Jadhav from MIV Investment. Please go ahead.

**Sharad Nayak:** This is Sharad Nayak, my questions have been answered. Thank you.

**Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead. There is no response, so we move to the next, which is from the line of Yash Agarwal from JM Financial. Please go ahead.

**Yash Agarwal:** Sir, I had a question on your yields, I believe in the month of August, you have cut your lending rate by 25 basis points, so is the peak that 10.2 to 10.22 number we are seeing is this the peak yield first is that, secondly, is there requirement to further cut yields given the larger the players have become very aggressive on the below 30 lakhs segment?

**Girish Kousgi:** It depends on the market situation. As far as the spread is concerned we want to improved the spread, if might cost comes down maybe I would reduce the yield, if my cost by change goes up I will maintain the spread and improve on the spread, therefore my yields also would go up, so it depends on the opportunity available in the market and the market situation with respect to interest rate moment.

- Yash Agarwal:** Sir, at the current level of yields, there is demand coming in for you right?
- Girish Kousgi:** Yes.
- Yash Agarwal:** Has balanced transfer increased or is there any sense that it is going to increase going forward?
- Girish Kousgi:** Yes, going forward BT in would increase for CanFin, I am talking about the company, BT-in would increase, BT-out will come down.
- Yash Agarwal:** So, you are getting aggressive to buy loans?
- Girish Kousgi:** It is not aggressive. It is the normal growth without compromising on the risk profile since there is market and opportunity for growth, so we want to capitalize on this.
- Yash Agarwal:** Thank you so much. Best of luck.
- Moderator:** Thank you. The next question is from the line of Nirmal Bari from Samiksha Capital. Please go ahead.
- Nirmal Bari:** Thanks for the opportunity again, Sir. Most of my questions have been answered, just one thing on NCD issues, for the past five or six quarters we have not issued any NCD so given how the cost of funds have been moving in the market, do we expect any NCD issues in the near future and further lower cost?
- Girish Kousgi:** Yes. I will answer this in 2 parts. Why we have not raised NCD in the near past is that given the cost of raising the NCDs was much higher than the available rate from banks. And therefore, if you look at our bank borrowings have gone up because we are getting fine rates sometimes. Okay. That is the reason. So what has driven in the past is predominantly cost of funds. Now of course, there are certain stipulations by SEBI and therefore, going forward, we will try and we will make an attempt to raise NCD. The only difference is in terms of cost. So we will try and see how best we can try and keep it low.
- Nirmal Bari:** At present though we see it at a competitive pricing or even now the pricing is higher?
- Girish Kousgi:** There will be some difference, but may not be significant. When I say some difference NCD rates could be slightly higher than bank rate.

**Nirmal Bari:** Thanks.

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

**M Mahantinamath:** Mr. Girish, I think this question was already asked, but I want to go back and confirm again, so your last Q2 2019, your loan book was higher than Q2 2020, so considering there is lesser competition, you have more branches, you have more employee, so do you still see challenges in growing the loan book and after this I have a follow up question?

**Girish Kousgi:** As I mentioned earlier, we see an opportunity for growth without changing the risk profile and therefore we want to stay focused on growth with asset quality and with better margins, so we want to grow in the next three quarters and actually quarter-to-quarter also we have grown.

**Prashanth Joishy:** This is Joishy this side. Actually, growth is there we can go properly, we have dispersed around 1000 Crores is the incremental AUM last year that is taking about September 2018 compared to 1218 Crores this H1, so there is 3% to 4% is growth is there, we are going step by step without taking any aggressive decisions as such, but is on the implemental part.

**M Mahantinamath:** Mr. Girish, this question is largely for you, I see about 40000 Crores target loan book going forward next year, but considering you are doing on an annual about like 2500 Crores in the past couple of years and considering the challenges in the market, low in the real estate, do you still think that can be achieved, do you want to re-strategize or what to change the numbers or you want to keep that right number and go with that more spirit?

**Girish Kousgi:** Very good question, our focus is going to be on growth, profitability and asset quality. Now, as of now we want to go with the vision of 40000 Crores, I am not saying we not have a need to relook at that number, at this point in time we have not, because we do not know how the market will unfold, let us say three to four quarters from now, so if liquidity position improves if the demand comes back, the way it was 12 years what is missing now, may it is possible, so we just want to give some more time to assess this 40000 Crores, so it will take another quarter or two to judge and decide whether we should go with 40000 or may be some freaking is required, but clearly the focus is on growth, profitability and asset quality.

**M Mahantinamath:** Thank you.

**Moderator:** Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

**Agastya Dave:** Thank you, Sir. Most of the questions have been answered. I had one question, yesterday RBI has come up with regarding liquidity first for NBFCs to be put in place by December 2020, so how are we placed and what would be the additional cost following those norms that is first question, and second Sir, you are replying to some one where you mentioned PT-out and PT-in, I missed the entire conversation, if you could repeat, so would be very, very nice?

**Girish Kousgi:** I will answer the second question, I will leave the first question to Joishy the answer. So, what I meant was BT-in is basically we doing loans from other institutions and BT-out is our book depletion, so our book depletion would reduce the phase and BT-in would increase.

**Agastya Dave:** So, the depletion part, that highest number I calculated as a percentage of the previous period book and it almost reached like 18% to 19% you were loosing a lot of your book through prepayment and repayments, so where do you think long-term it will settle at, can we go back to, I have seen in few quarters you guys have been 11% to 12%, so we will go back to that level?

**Girish Kousgi:** It will be difficult to answer this question, but the only thing is I can our BT-out at least for the next few quarters would be low, so probably another four to six quarters it will be low, after that it all depends on how the market is, for example, let us say if everything goes well with respect to market, liquidity, lot of players come back into business then of course the person will be still same 18% to 19% because we are at the same market and there will be differential in price and customers will try to leverage that, so at least for the next four to six quarters BT-in would be more and BT-out would be less.

**Prashanth Joishy:** This is Joishy this side. Regarding your first question about the NCR maintenance, what is proposed by the RBI as such, this concept also came back six months back assets also, that and only we started just assessing what are the requirement required for the 15 months average and all these things so keeping that in mind only we are doing our aim and calculation on presentation and as you might have been heard when our MD Sir, has made presentation about funds available as well as the commitment for the next six months we have announced surplus of around 300 Crores to 400 Crores we have informed there, that has been kept only keeping this offset also in the mind as such, so the stress for this may be next two to three quarters may not be that much, but going forward taking the consideration



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the volume of the book growth and all these things, we have to go in detail study and do it as such, but as the comments right in the media, yes, there is going to be little stress on the cost of funds and the return as such, but we have to do the detail analysis and then we can able to comment in detail in this regard.

**Agastya Dave:** No, thank you.

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

**Girish Kousgi:** Thank you very much all for staying invested in CanFin. We will assure that we will try and do our best in terms of growth, in terms of asset quality and in terms of profitability that is our vision and we want to stay focused on that. These are difficult times, but we are very confident and hopeful of maintaining and coming out with good results quarter-on-quarter. Thank you very much.

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