Company Name: Can Fin Homes Ltd
Company Ticker: CANF IN
Date: 2018-01-23
Event Description: Q3 2018 Earnings Call

Market Cap: 61,304.16
Current PX: 460.4
YTD Change($): -12.45
YTD Change(%): -2.633

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: N.A.
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: N.A.

Q3 2018 Earnings Call

Company Participants

- Utsav Gogirwar
- Sarada Kumar Hota

Other Participants

- Nischint Chawathe
- Harshit Toshniwal
- Ritika Dua
- Sanket Chheda
- Jahnvi Goradia
- Rohan Mandora
- Bunty Chawla
- Hardik Sodha
- Madhuchanda Dey
- Ronak Raichura
- H. Sangameswar Iyer
- Sangeeta Purushottam

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good day and welcome to the Can Fin Homes Limited Q3 FY 2018 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. [Operator Instructions] 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, Sanford. Good afternoon, all. Welcome to the quarter three FY 2018 earnings conference call of Can Fin Homes Limited. To discuss the financial performance of Can Fin Homes and to address your queries, we have with us today Mr. S. K. Hota, Managing Director of Can Fin Homes; and Mr. Atanu Bagchi, CFO & DGM. I would now like to hand over the call to Mr. Hota for his opening comments.

Sarada Kumar Hota

Thank you, Utsav. Good afternoon and Happy New Year to all of you. Happy Makara Sankranti. Now that FY 2018, the first three quarters are behind us, I'd like to say that the first three quarters of current year, this had some impact of – the lag impact of demonetization, RERA, GST, there are a lot of activity (sic) [activities] (00:01:39) during the calendar year 2017. All those are behind us. One very positive is the housing market is looking up. As reflected in our – the sanctions, new approvals as well as the disbursement, for your company the sanctions have gone up, for Q3, by

14% year-on-year; i.e. Q3 of current year has seen a 14% increase in new approvals compared to the Q3 numbers of last year.

The disbursements have gone up by 9%, 9.5% compared to last year and these numbers, if you compare with quarter two, both sanction, as well as disbursement were up by 4% compared to Q2 of previous year and quarter one had a very flat growth. It was marginally negative compared to the last year's sanction levels. So, Q1 of FY 2017 and Q1 FY 2018, if you compare, we were just matching up the new approvals; from that level, we grew to 4%, and now to 14%. This is a very strong positive. We see revival of the housing loan market and the housing sector as whole.

When it comes to the loan book growth, loan book has grown by 19% year-on-year, and for the first time, Can Fin Homes has crossed the milestone of INR 15,000 crore loan book mark. Coming to the earnings numbers for quarter three, the income went up by 13%, and the expenditure were contained at around 9%. When it comes to the NII, NII growth was 16%, operating profit grew by 24%, and the PAT has grown by 34%. There again consistently quarter-on-quarter from quarter one INR 71 crore to quarter two INR 75 crore, now we have posted – we have crossed the INR 80 crore mark. So, these numbers are all-time high for the company, for any quarter, and if you compare for the three quarters put together, we have clocked the PAT number of INR 226.31 crore, which is almost equivalent to near the last full year's profit number.

Coming to the ratios, the earnings ratios and the margins, we have been in a position to consistently maintain the margins above 3.5%, despite the quarter three witnessing the bond yields hardening, going upward and some impact of the yields falling because of the competition in the market. So we are very happy that consistently maybe it is for the 5th – 6th quarter that we are holding on to this 3.5% level – and 3.5%-plus level of margins, NIM.

For the – in terms of the earnings ratios, one more is very strong positive is, after March 2017, first time the company [ph] came about (00:04:34) posted a ROA of more than 2%, EPS of – sorry, ROE of around – above 20%, close to 23%, 24%, 25%, in those ranges. We had been in a position to hold on to all those. Our capital adequacy is going on improving. It is at 19.16% now, and Tier 1 is close to 17%. Average business per branch has grown to something like INR 106 crores, INR 107 crores and per-employee business has grown to INR 24 crore.

Asset quality front, current year has seen – witnessed some impact in terms of the delinquencies that is the market trend overall we have witnessed, and as a strategic move, even last quarter earnings call, I had told that there is a strategic fit in our focus towards the credit monitoring and recovery policy. As all of you will appreciate, for Can Fin, we have never compromised with asset quality when it comes to the growth numbers. So asset quality is of paramount importance for the company, when it comes to the new approvals and the acquisition of the new loans.

So we have stuck onto our fundamentals of the company that we'll not compromise in terms of asset quality. So, as a prudent measure, you can predict a sort of – it's a strategic fit that we had taken from quarter one itself. Quarter one I had disclosed that we have marked some 180 accounts for recovery under SARFAESI. Total during the three quarters for 350-plus accounts we have invoked SARFAESI amounting to more than INR 50 crore and one very strong positive is that the results are very good; almost 170-175 accounts have been regularized through this route.

We have brought it down, those delinquency levels in those accounts, because we are – we found that there is a point where you need to say, it's enough, because following up an account for one EMI and continuing to keeping it till 60 days delinquency doesn't make much sense because a lot of labor goes in. So it was a deliberate attempt by the management that yes, we should try to knock off any asset which is showing a lot of resistance to regularize or, for that matter, the investment in terms of recovery is – recovery efforts is much more.

So we are happy that we have been in a position to hold on in terms of gross NPA ratios ratio at 0.46%. Net NPA, unlike previous year, we have not tried to provide full because we are confident that by March it will be a much better quarter when it comes to Q4, because there is one more reason why the NPA in terms of ratio it appears to be more because the growth rates – the normal, usual growth rate is yet to return. I think the growth rate we expect that coming to somewhere around quarter one of next year, I think things will be more than normal and FY 2019 should be the best year as far as housing industry is concerned; not for Can Fin alone. There is sign of [indiscernible] (00:07:29) coming across the sector, almost in all the HFCs and the banks.

There is a lot of competition. One more factor is there, a lot of competition in terms of the rate of interest. There is rate war almost going on because the banks are big way into housing finance, and there is competition. Nobody should ignore that. That way yes the quarters had been quite tough quarters, when it comes to the Q1, Q2 and Q3 of FY 2018. We hope that going forward, the way things are panning out, these are all positive only with [indiscernible] (00:08:11) going ahead from now on. So quarter four should be, let us wish that FY 2018 will bring some good luck and good opportunity for all of us, for the company, as well as for all its stakeholders.

Certainly, yes, we owe an answer to you for any of your – any of your queries and any of your doubts about the numbers if you have. We have tried to be as transparent and as open as we were earlier, so we have disclosed all the numbers in our presentation, that is why along with this AV format we have uploaded the presentation immediately on all the exchanges – both the exchanges. I suppose I need not talk more about the numbers. I'll be – me and my CFO, all of us – both of us are there. We will be more than happy to take your questions, if you have got anything beyond these numbers or about the numbers, how it happened and what could not happen. Thank you. We will be taking the questions now.

Q&A

Operator

Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. [Operator Instructions] We take the first question from the line of [ph] Augustya Dave (00:09:53) from CAO Capital. Please go ahead.

<Q>: Thank you for the opportunity, sir. Sir, can you take us through the slide 11 and 12, and your commentary on what happened in October because there was a pretty steep de-growth Y-o-Y and you have then recovered very smartly and December seemed to be a very nice month. So if any qualitative commentary there and how is January panning out so far?

My second question is on rights issue sir; because the growth has been lower this year, your capital adequacy has actually improved. My guess is that is kind of putting pressure on NIMs also in a way. So, are you planning on going ahead with the rights issue even now, because you have maintained that 2019 and 2020 will be the best years for the industry? Thank you, sir.

<A - Sarada Kumar Hota>: Thank you, sir. It's a nice question. I was expecting – while putting these numbers on the board, certainly there is nothing to conceal. I have got an answer to that and there is a very valid answer. This time, if you remember, unlike earlier years, I think 2017 was the first year when the puja holidays came in September end, and the Diwali was somewhere in the mid of October. It was not like the usual years when the October used to witness Dasara, and Diwali towards October end and November first week. So, October is a month of 31 days. If you see the practicality, the working days was something around 20 or 21 days only.

<Q>: Yeah.

<A - Sarada Kumar Hota>: That is one of the reasons, because normally post a quarter-end, one or two days, there will be some – till such time that the people start again for holiday season leading to – if you see the September number, you'll find the answer there. September number was very good; one of the reasons may be because the puja was advanced. So people do these jobs; mostly they are buying a home or looking for a house or going for a loan before that. After that, normally what happens is, because as Can Fin deals mostly with salaried class, people will be in a holiday mood and that is the time that normally we don't see much business during puja holidays, sir. That is the reason; otherwise I don't see – if you see the quarter as a whole, I don't see any slump because...

<Q>: Okay

<A - Sarada Kumar Hota>: ...compared to Q1, if you see the Q2 and going forward if you see – that is why we have put – we've embedded a trend line as well. You can see that the monthly sanctions, approvals, have risen to something like around INR 500 crores, INR 550 crores a month and the disbursements are in the range of INR 450 crores to INR 475 crores in a month.

So, going forward, Q4 certainly as the trend says, it should be somewhere in the range of INR 600 crore a month in Q4 – INR 600 crore-plus in Q4, as far as new approvals are concerned and disbursements should be in the range of INR 500-crore plus, sir, average.

<Q>: Okay. Okay, okay. So January spanning out venture basically.

<A - Sarada Kumar Hota>: So you can always see that – let's not see because many times what happens in a particular month, you see the growth rate will be very good in Q4, very reason being that Q4 of last year was subdued quarter...

<Q>: Correct.

<A - Sarada Kumar Hota>: ...because it was immediately post demonetization.

<Q>: Correct.

<A - Sarada Kumar Hota>: So that way, it is pure arithmetic; that is what somebody was asking me, one of the anchors somebody asked in one TV channel that how come this growth rates are looking like 19%? It is going down. It is pure arithmetic. Arithmetically it is always true that when the base figure is a good figure, it was a pre-RERA, pre-demonetization and pre-GST period, I am comparing something which is a – what is that – a suffered a year with a normal year.

<Q>: Correct, sir. Correct. I agree sir.

<A - Sarada Kumar Hota>: I suppose next year people will be asking me the same question; how come your growth rate has spiked?

<Q>: Yeah. Yeah.

<A - Sarada Kumar Hota>: And so this is pure arithmetic; as far as – we need to see, that is why we have given month-on-month trend, you can see the average, whether averages are improving or not.

<Q>: And sir – and sir, about rights issue, sir?

<A - Sarada Kumar Hota>: About rights issue, sir, I stand onto our – the company's this one that when we came with the rights issue, the permission from the board and we declared that we want – we are thinking of raising INR 1,000 crore, we hold on to our that stand, and we have not dumped it as of now because going forward, we don't require – company doesn't require for capital adequacy. My capital adequacy is strong enough.

<Q>: I understand, for the liquidity of...

<A - Sarada Kumar Hota>: We want it for the leverage. Yeah.

<Q>: Yes, yes.

<A - Sarada Kumar Hota>: We wanted for a sound leverage, so that the company holds as of now, but there are some issues that yes, we have kept it deferred. Maybe at the right time, opportune time looking at the developments and looking at the – once the growth returns, we should be there in the market with the issue. It – it stands.

<Q>: It stands, sir. Thank you very much, sir. Good luck, sir. I'll see you again, I guess, if I get the turn. Thank you, sir.

<A - Sarada Kumar Hota>: Yeah, sure, sir, welcome.

Operator

Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

<Q - Nischint Chawathe>: Yeah. Hi. Sir, this is pertaining to the – to the – to the break-up of your loan book and, very interestingly over the last four quarters, the share of salaried customers has actually gone down from 77% to 74%. I – I would have typically assumed that, given de-mon et cetera, you would have possibly seen the share – I mean, you should have possibly seen the share – the share of salaried customers going up, but, things – the ratio seems to be the other way round, so I was just wondering how to read this?

<A - Sarada Kumar Hota>: Yeah. For the four quarters if you see, it has gone down from 75% to 74%, not exactly 77%. My slide number 16 you can see, the salaried class comes in the first this one. In percentage terms, it has gone down from 75% to 74%; the previous year it was 80%, that way if you compare yes, the company is we have remained the dialing of salaried class, but we do and we are looking into this SENP segment as well. The very reason being, this is a promising sector and this segment of customers you cannot ignore, because their number is increasing very fast and the aspirations of the youngsters, when it comes to the SENP segment, you cannot ignore. That's a very good – the potential segment that yes company needs to approve [Technical Difficulty] (00:16:28). So we are increasing.

But when it comes to why salaried space is reducing, there is one more reason. Post demonetization and post RERA, the salaries classes are more informed, having access to information, where what happens particularly in a state where you don't have many RERA complied properties they're willing to wait. They are not in a hurry, they always defer their decisions that unless they check and conform that this property is complied with RERA, they'll go for it.

Recently if you have seen, there are 700-odd properties – the projects in Bangalore were issued notices by the RERA of Karnataka, that they have not registered with RERA. So naturally, people will go jittery. Those who are buying a property in those particular projects will think twice. So, what happens is, salaried class being more informed, they always tend to evaluate and wait till such time they clarify their doubts. So, clarity of RERA, clarity regarding the RERA complied projects and the supply side, it is – I suppose it'll take a little more time. We can expect that – we are thinking that Q3, Q4 should be good quarter, but somehow in all the states it was not that uniform. We see a very good growth in those states where RERA was regularized.

<Q - Nischint Chawathe>: Yeah. So broadly I think what we can say is that, like we have seen any kind of soft growth over the last two quarters – I mean most of it could be because of RERA then, really anything else to do with de-mon or anything of that sort?

<A - Sarada Kumar Hota>: De-mon is – de-mon is far behind now. You know de-mon has rather – I always stand by my words; earlier also I have told, de-mon was something with very good to happen for [ph] this sector (00:18:15) because particularly for my clients, the type of clients that Can Fin caters to, they are mostly middle-class, lower middle-class and the LIG segment of customers, who are in the income range of INR 1 lakh and below a month. So these sorts of people – this particular segment of customers, normally, the housing loan is maybe the biggest loan in their life and the right side of the debit – deduction side of their pay slip, this housing loan EMI will be the biggest deduction.

So they are very, very careful about before jumping into deciding on a property even for – when they go for buying a car you don't – these – these guys don't upgrade their car also in so frequently. So when it comes for buying a home, naturally people do, they do all the due diligence much better than the financier. This is – this is how really the – even psychology works.

<Q - Nischint Chawathe>: Sure. Sir, just on the CLSS Scheme, how much subsidy would you have applied and how much would you have received from the government from [ph] NHP (00:19:23)?

<A - Sarada Kumar Hota>: CLSS sir, yes, we have got fairly good number of loans particularly under LIG. MIG is picking up now and as far as the disbursement of subsidies is concerned, it's not an issue; normally the subsidies, wherever they're confirming to the – because there is a confirmation to the Aadhaar and the family should not have availed anything, it should be the first home and one more one is the carpet area. To the extent of carpet area, it is on affidavit basis people are doing, but many of the – the earlier carpet area norm if you go by, many of the existing properties were not qualifying. So the CLSS, I think, the real CLSS uptick will – you will get to see in 2019 – FY 2019 that is...

<Q - Nischint Chawathe>: And any, any numbers you could share as to how much subsidy have you claimed?

<A - Sarada Kumar Hota>: I don't have the exact number, but it is quite a sizable number.

<Q - Nischint Chawathe>: Okay.

<A - Sarada Kumar Hota>: How much will be approximate, can you tell the number? [indiscernible] (00:20:34). Okay.

<Q - Nischint Chawathe>: Okay, sir. Thank you very much.

<A - Sarada Kumar Hota>: If we get the numbers, I'll – I think we'll like to give you a supplement; somewhere we'll upload.

<Q - Nischint Chawathe>: Sure, sure, that would be great, sir. Thank you.

Operator

Thank you. We take the next question from the line of [ph] Megha Shah (00:20:53) from Future Generali. Please go ahead.

<Q>: Good evening, sir. Congratulations for the good set of results.

<A - Sarada Kumar Hota>: Thank you.

<Q>: My first question would be pertaining to your borrowing mix; now that we see your current market borrowing stand at 58% and with the rising bond yield scenario, your bank borrowings are at 22%, so how do you see your mix moving going forward? I mean, how are you going to protect your cost of funds from rising given that you have a high exposure to the NCD markets?

<A - Sarada Kumar Hota>: It's a good question ma'am, but if I've got a high exposure to the NCDs, as of now, I stand protected to that extent. That is, for the next few years that I have locked in those borrowings at a – for a longer term, because the money market borrowing also if you see, most of our market borrowings are in terms of NCDs. CPs we restricted to a maximum of one year inflow. So we don't have much short-term borrowings. These are mostly long-term borrowing. To that extent we are – we stand protected because we have borrowed before the bond market started moving upwards.

That is one, another thing is even though our borrowings from banks is at around 22%, we have enough credit line and reasonably good rates, plus there is a NHB borrowing which is again available to us – the line is available to us.

<Q>: Okay.

<A - Sarada Kumar Hota>: We are comfortable with – yeah, it will not be an issue for the amount of growth that we envisage.

<Q>: Okay. And what are your incremental cost of funds and yields if you can tell us?

<A - Sarada Kumar Hota>: Incremental cost and yield, I can say one thing only, you'll have to do a little work out only, because my cost of funds as at March was something like 8.35%, now it is 7.72% and yield was 10.96%, right now it is 10.39%.

<Q>: I'm talking about the current loans in the month of Jan. I mean, what is the incremental cost of funds that are...

<A - Sarada Kumar Hota>: That's what I'm telling, if I'm giving you the March numbers and current numbers...

<Q>: Okay, okay.

<A - Sarada Kumar Hota>: Loan books are there, I think we can – we'll have to do some working and I'll have to tell you.

<Q>: Sure, sir.

<A - Sarada Kumar Hota>: You can work out.

<Q>: Okay. And so you were expecting your margins to be maintained going forward given that you're well protected on your cost of funds side, although yields are seeing a bit of pressure, but you feel the margins would be somewhere around this range?

<A - Sarada Kumar Hota>: Yeah, yields are an issue, not the cost that much, because cost these are – I suppose these are manageable as far as the company is concerned. Going forward, yields we have to – if you have to compete with the market then you need to keep your yield somewhere par with the banks and now competition is not amongst SSTs alone because if you see the worst of the bank who are under PCA, their cost of funds is also [indiscernible] (00:23:43) because there is huge amount of money stacked in [indiscernible] (00:23:48) and the banks are in a position to afford because of the very low cost of funds.

There is a pressure from yield side and there is lot of – if you want to protect your loan book, you need to take that pressure on your head; that is a known casualty that all the HFCs have to go through, because we don't have...

<Q>: Your cost of funds would commensurately come down, is that what you are saying, so that your NIMs are maintained, your spreads are maintained?

<A - Sarada Kumar Hota>: Let's say there are ways, because if you have to arrange – manage your yield and if the costs are maintained, then to manage your yield you have got other ways that you can change your mix.

<Q>: Okay.

<A - Sarada Kumar Hota>: So we are looking at going for something, some high cost as well so that – another thing is Can Fin has got a risk-based pricing. So we don't offer the same rate to all the guys there. Somewhere we need to – management has got many tools to really handle the yield in that way. We are deploying all those resources; let's see.

<Q>: And one other query, sir, your non-salary portion is increasing, right? So does that come in with a higher yield or how does it work?

<A - Sarada Kumar Hota>: Yeah. It comes as a little higher yield.

<Q>: Little higher yield. Okay.

<A - Sarada Kumar Hota>: That is where I told you, the mix also is going to play.

<Q>: Right. That's how you will alter the mix is what you are saying. So what is the target self-employed that you are planning to have in your loan mix?

<A - Sarada Kumar Hota>: I have not precisely decided. We'll see that within a tolerable range, because primarily we deal with the salaried class, but non-salaried class, yes there is a stringent due diligence process.

<Q>: Okay.

<A - Sarada Kumar Hota>: So that is how, if [indiscernible] (00:25:20) a salaried class we take less than a week, for a non-salaried class we take more than that, around 10 days or 2 weeks' time. But still then, not only non-salaried, there is a non-housing portfolio we do only 10% – 10% is our exposure to non-housing that is – that offers some opportunity.

<Q>: Okay. So you – I mean I just want to understand what are the targets that you would want to achieve? In terms of non-housing also, how much would you get to? You must be having a threshold target kind of thing in place. So would it be somewhere around 15% to 20% or anything that you can guide us with?

<A - Sarada Kumar Hota>: I can say this much that yes, because right now the pressure of – the entire focus is on housing; as far as the government's move, the housing for all is concerned. Non-housing is not in the focus area. So, deliberately the company needs to maintain the right mix if we have to sustain our health.

<Q>: Right.

<A - Sarada Kumar Hota>: That's all I can say, yeah.

<Q>: Okay, sir. Thank you so much.

<A - Sarada Kumar Hota>: There is no limit; the limit of non-housing is we can go up to 49% I would say. As of now, 25% was the earlier untold limit, but I suppose now the HFCs can go up to 49%.

<Q>: Okay, sir. Thank you so much for that valuable feedback and insight.

<A - Sarada Kumar Hota>: You're welcome, ma'am.

<Q>: That's all from my side.

<A - Sarada Kumar Hota>: Thank you.

Operator

Thank you. We take the next question from the line of Harshit Toshniwal from Jefferies. Please go ahead.

<Q - Harshit Toshniwal>: Hi, sir. I wanted to know that if you can throw some light on the regional disbursal growth and the general trends, more specifically in Tamil Nadu and Bangalore also I think there were some registration issues. So, can you throw some light on how things are there on the field?

<A - Sarada Kumar Hota>: Bangalore doesn't have registration issues, Chennai has got those registration issues...

<Q - Harshit Toshniwal>: Yeah.

<A - Sarada Kumar Hota>: ...because there was a High Court embargo on the primary rule...

<Q - Harshit Toshniwal>: Right. That was there.

<A - Sarada Kumar Hota>: Yeah, that was there last year; things are yet to – because secondary sales have started there and we are funding mostly for the construction cases. Somebody wants a piece of land, so Chennai is looking up. As far as Tamil Nadu market is concerned, it is looking up, but not at par with Can Fin's growth rate and as you know, almost one-third of our business comes from Karnataka and almost 15% comes from Tamil Nadu.

Almost half of the portfolio comes from these two states and Karnataka, there was some delay in terms of the RERA and because the people are well informed down South, normally what happens is, the demand doesn't go anywhere, demand remains, maybe it's deferred, the demand will manifest in terms of the loan book and the enquiries going forward in the coming quarters.

<Q - Harshit Toshniwal>: But...

<A - Sarada Kumar Hota>: Certainly, yes, the growth rate in these two states are in – comparatively much lower, and if you reduce these two states, even if you reduce only the Karnataka alone, you can take that the growth rate elsewhere is something like in the range of 6%, 7% higher.

<Q - Harshit Toshniwal>: Okay. Okay. Okay.

<A - Sarada Kumar Hota>: Yeah.

<Q - Harshit Toshniwal>: Okay. And sir, what is the difference between – so, for you, the yields between self-employed and salaried class...

<A - Sarada Kumar Hota>: It will be something in the range of 50-basis point, 35 to 50-basis point.

<Q - Harshit Toshniwal>: 35 to 50 basis points. Okay. Okay, sir. Thanks a lot.

<A - Sarada Kumar Hota>: Right.

Operator

Thank you. We'll take the next question from the line of Ritika Dua from Elara Capital. Please go ahead.

<Q - Ritika Dua>: Yeah. Sir, thank you for taking my question. Just one question. Sir, we've been – our operating efficiency is like, obviously, despite the growth slowing down a bit, we've had a very tight leash on OpEx and, specifically if I see the staff cost, they have like risen just by like a 10% on a Y-o-Y basis, 10% to 11%. So what has led to this and how – and secondly, we've mentioned now that in our presentation that we would be incrementally opening some branches and then, again converting some into our affordable housing centers. So in the light of these two, sir, how do you see costs incrementally?

<A - Sarada Kumar Hota>: As far as the efficiency part is concerned, yes, it manifests into our cost income ratio. We have been – the year through, we have been in a position to hold it around 14.5%, compared to almost it was 2.5% higher even last year-end. In the previous year-end if you see, there is a consistent drop in our cost income ratio, which shows the operating efficiency of the company. Cost, we have been in a position to control. Staff cost, yes, staff cost; even though there is a trough, in terms of the quantum, if you see, there is a jump.

Where we are getting the benefit is, you need to look at the average business per branch and average business per employee. Now, the average business per employee has gone to something like INR 24 crore, and average business per branch is something like INR 107 crore. So these are good numbers – this is really helping us because we have been in a position to – as the employees mature, as the branches mature, the productivity improves and you tend to generate per employee and per branch – you leverage these outputs and that way the productivity. And that is how the operating efficiency, we have been in a position to hold on to. I think that is one of the reasons that despite a 16% growth in my NII, we are in a position to post a PAT of 36% – 34% growth. I think that is the key for Can Fin.

<Q - Ritika Dua>: Sure, sir.

<A - Sarada Kumar Hota>: Yeah.

<Q - Ritika Dua>: So sir, incrementally anything on cost to income you want to help with?

<A - Sarada Kumar Hota>: Cost to income, incrementally, when we are opening these branches, 20 branches, we had plans to convert 30 satellite offices to affordable housing loan centers; we have already done 20. Remaining 10, we are planning; some of the branches which were not giving good numbers, good – some satellite offices, we have preferred to close down those or to relocates few. New branch opening, we have been little careful; we are going into the growth centers, wherever growth is, we are opening those branches otherwise – we are not opening branches just for the sake of increasing the network. As growth returns, we are willing to go to expand the network in a bigger way again.

<Q - Ritika Dua>: Sure, sir.

<A - Sarada Kumar Hota>: As far as the employees are concerned, I suppose I had told earlier, we had tried to bring in more number of professionals into the company in terms of the advocates, the Chattered Accountants, the Company Secretary, the Law Officers, the MBA graduates, Management Trainees, so we are trying to bring in specializations, the people with those special skills into the company, so that you can leverage on their talent and the succession pipeline is maintained.

<Q - Ritika Dua>: Certainly sir. So, thank you so much, sir. That's it from my side.

Operator

Thank you. We'll take the next question from the line of Sanket Chheda from IDFC Securities. Please go ahead.

<Q - Sanket Chheda>: Hello.

<A - Sarada Kumar Hota>: Hi, sir.

<Q - Sanket Chheda>: Yeah, sir. As you just mentioned that you're witnessing pressure on yields mainly because of the salary segment is little more informed compared to others, so, would that be also the case that banks are going really aggressive other NBFCs also offering rates around 8.5% to 9%. So they are shifting there or they're taking out the customers because banks should be quite comfortable doing salaried segment rather than going for self-employed. So are you – are you witnessing that trend?

<A - Sarada Kumar Hota>: I don't see really the flight of loans as far as the shifting of loans to your loan book to other banks is concerned. I don't see that much really on account of whether it is in salaried space or SENP space. What I told is, salaried space are being more informed, they defer their decisions of buying a home. So, that is why the salaried space is not increasing and the – our loan book to salaried space is not increasing that very fast, because you can take something which is a demand which is deferred. So the [ph] buyings (00:34:01) are going to come, the demand is not going out of the market. It remains there.

Only thing is, you may witness clarity regarding RERA, some clarity regarding the GST, and all those things are emerging. Maybe you will find as the supply side is getting addressed now, a lot of buying and lot of demand from the salaried space going forward in the coming quarters. Because being well informed, normally what happens is they always evaluate whether to go for it now or to wait for next quarter, wait for some right time.

I gave you the example of the RERA non-complied some properties in Bangalore for which the authority has notified 700-odd properties. So the people who have got access to information normally what happens is they don't want to put in their hard money into buying a home when you can very well manage in a rented accommodation till such time that you are confident about the home you're buying. Whether it is RERA compliant or not, whether – even if when people expect that there is some price correction expected, they're willing to wait. This is what happens in the salaried space, how the psychology works there.

As far as the competition part is concerned, competition is there for rate, because a bank offering 8%, 8.25%, 8.35% rate of interest there is a margin of [indiscernible] (00:35:28) whereas for me it is not so, my cost of fund is 7.72% and when I offer 8.5% or 9% still then my margin is much thinner. So what happens is, I make money through my asset quality, through the operating efficiency, not through the [indiscernible] (00:35:42). So 3.5% margin there are many of my peers who make 4%-plus margins, but Can Fin has remained always comfortable around this range we are posting the same numbers.

The reason being, the Can Fin's fundamentals are the company has been grown that way, these are – we have never deviated from our fundamentals that when growth is not there in the market, if the growth has slowed down, we know that yes, Karnataka market or Tamil Nadu market is not growing at those pace what they used to earlier. So we are willing to wait for those growth to come, rather than growing at any cost and compromise with the quality.

<Q - Sanket Chheda>: And sir, are you witnessing any trend, like if a customer wants a top-up or something for like say, home renovation, so if we are not comfortable on the basis of LTV, somebody else is giving them the top-up and at a comparable rate, are you seeing those kind of customer acquisitions by some other firms?

<A - Sarada Kumar Hota>: These things are there. Even earlier they were there, even now it is there. That will be there always in the market, but as a company we never believe in really allowing people to get inside Can Fin with – through that route. If somebody is going out still then we see that yes, the pressure on our loan book is not that much because we maintain a comfortable LTV. So if any of my customer requires a top-up at any point in time, if it is a genuine requirement, we are there to help. But if somebody wants unethical, we never mind if he is switching.

<Q - Sanket Chheda>: No. What I wanted to know is are the LTVs are getting diluted at a systemic level, you see LTVs are getting maximized or optimized?

<A - Sarada Kumar Hota>: I suppose going forward, let's say we need to – in such a situation, I won't give an answer on the market, but one thing I'll tell is, these are high time really when you are flushed with liquidity, how tight you are on your purse that only depends that how far you are going to go in the long run.

So, one should not be tempted by this sort of growth, that's what I'm telling. For the growth side, if I want to hold on to the growth rate of Can Fin that used to be 25%, 30%, we are not willing to grow at those rates, when there is no growth, genuine growth in the market. We are willing to wait. When the growth comes, the company should be ready to capture those growth. We'll not compromise with our fundamentals.

<Q - Sanket Chheda>: Okay. Okay, sir. That's all from me. Thank you.

<A - Sarada Kumar Hota>: Okay.

Operator

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

<Q - Jahnvi Goradia>: Yeah. Hi, sir.

<A - Sarada Kumar Hota>: Hello, ma'am.

<Q - Jahnvi Goradia>: Yeah. Sir, in terms of our net NPA, which stands at about INR 38 crores this quarter as compared to say, roughly INR 2 crores on a Y-o-Y basis, so what's your sense on the PCR? I mean, do you think you will – as our company has been going to a net NPA of zero percent by March and since last several years, you think you will make that much of a provision in Q4, so that net gets zero, or you'll keep the PCR at less than 100%?

<A - Sarada Kumar Hota>: Ma'am one more thing I would like to ask you, I told you in the beginning itself in my opening call that in the Q1 we had allowed 180 – we had marked almost 180 accounts as NPA and proceeded with SARFAESI. Out of those and Q2 some – for the three quarters almost 350-plus accounts amounting to around INR 50 crores earmarked for recovery and we've invoked SARFAESI [indiscernible] (00:39:29). Out of that almost, 170 accounts we have regularized. But the very reason being we are not worried about this INR 23.75 crores that I'll have to provide and I require INR 23.75 crore to make – INR 37.51 crore to make it nil at NPA.

We are hopeful that, yes, we have been recovering, we are confident. We should be in a position to recover the substantial amount out of this, and normally by the year end, Q4 always used to be very good year. So we are not looking at last year report as maintaining through INR 2 crore of net NPA and I had provided 95% of my NPAs under coverage and current year, my coverage is 60%. Not looking at those numbers, still we are not worried whether it is – the quantum doesn't worry as much as long as we are in control of those numbers. INR 37.51 crore of net NPA actuals if you see for current year, there is not much of increment. If you see quarter onwards itself was something like INR 24 crore and INR 26 crore in Q2. This quarter again, furthermore around INR 10 crore we earmarked.

Certainly, we are confident, that is why we are doing. We expect substantial amount of reduction by way of cash recovery, we should be in a position to upgrade those or knock off those from our book.

If an account is warranting lot of your reports, every month, month-on-month to collect one EMI or two EMIs, it is worth it to knock off those accounts from the book because the cost that you incur in recovering, realizing those EMIs is much more compared to holding that account. So holding cost is much higher in the few of the accounts; that is where we take a call whether to allow this account, to continue in our books and hold it, keep on maintaining your gross NPA at those levels or net NPA at those levels. These are all quarter-end issues. I suppose the year-end should be a good year-end.

<Q - Jahnvi Goradia>: Sure, sir. Thank you so much, sir and good luck.

<A - Sarada Kumar Hota>: You're welcome.

<Q - Jahnvi Goradia>: Yeah.

Operator

Thank you. We'll take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

<Q - Rohan Mandora>: Sir, thanks for the opportunity. Sir, like a couple of quarters ago, you had indicated that we would be doing risk-based repricing of some of the loans. So just wondering like what percentage of our portfolio has already seen at least one round of re-pricing based on the – and what was the quantum of reduction in age that we've seen in that?

<A - Sarada Kumar Hota>: I don't have the precise number of that, but it is happening every month – it is happening every month when the customers – because we keep notifying them. It is there in our website. We do keep them informing through SMSes as well as whenever they are approaching the branch. So, it happens. It is a ongoing process.

<Q - Rohan Mandora>: And this is signed on 1st of April 2017, right.

<A - Sarada Kumar Hota>: Pardon sir. Yeah from April onwards, for current year FY 2018 itself, we had from April onwards, we started this and we have taken the NOL resetting we're offering to the customers and Can Fin is the first housing finance company which has been so transparent with the borrowers. What we're telling them is, yes, if you switch over to the NOL re-pricing mode, then once you reduce by paying the interest rate adjustment charge, subsequently it will be auto reset at the year end.

<Q - Rohan Mandora>: But sir, any ballpark number like what percentage would have migrated to this 15%, 20%, 30% of the borrowers?

<A - Sarada Kumar Hota>: I don't want to put anything yet, because I don't have the numbers right now with me.

<Q - Rohan Mandora>: And sir, like what will be our GNPA absolute amount in, say, in the salaried and the non-salaried segment, if you could share that bifurcation?

<A - Sarada Kumar Hota>: I suppose, I'll have to do some more research and dig into those numbers, sir. But I have not seen any difference in delinquency in terms of salaried and non-salaried.

<Q - Rohan Mandora>: And sir, in this particular quarter, the slippage that came, any color on that, like was it from salaried or was it against split between...

<A - Sarada Kumar Hota>: That's what. This has been a common question. I think in my previous quarter and calls also, you will find that, yes, I have clarified there is no specific trend we have seen that the salaried used to default more or the non-salaried used to default more. It depends on a particular individual only. You cannot give a color whether salaried or non-salaried which particular segment of customers tend to default more.

<Q - Rohan Mandora>: Okay. Actually, sir, what will be the total outstanding approval wherein the borrowers may come ahead and approach for further disbursement and that the bifurcation [indiscernible] (00:44:20), like where a property is not identified or where there are some part disbursement that has already been done? So just wanted to get a sense on the outstanding approvals where we may expect some disbursement in case the disbursement pipeline – which will add to the disbursement pipeline of the future quarters?

<A - Sarada Kumar Hota>: No always, the disbursement pipeline, it is always just starts from the approval...

<Q - Rohan Mandora>: Right. So what would be outstanding unavailed approvals that we will have right now on our books?

<A - Sarada Kumar Hota>: Always you can take it that, any point in time, you will have of your sanctions the disbursements will be something in the range of 80%, 85% and [indiscernible] (00:44:57) disbursement the outstanding will be – because we are a old housing finance company; we are a 30-year old housing finance company. So if we – if any – if we are new, particularly in my new branches, what happens is they disburse INR 10 crores and the outstanding goes up by INR 11 crore, because the last year's interest accrual will be there, plus this INR 10 crore full, because EMI will commence, EMI will commence only after the moratorium period is over. But for a old company like ours, because we have got branches, individual branches holding a portfolio of INR 500 crores, INR 600 crores. I've got many branches with – close to INR 500 crore of outstanding loan book. So there will be old customers who tend to – because the usual repayment itself is substantial enough for Can Fin. That is a good – a good chunk because 40 branches are old branches, remaining branches will come up in the next five years, so that is where the churning of the portfolio, it keeps on happening.

<**Q - Rohan Mandora**>: Okay.

<**A - Sarada Kumar Hota**>: You can always see that the incremental – per quarter, if you see, the increment in terms of, was that your sanction, disbursement and outstanding, you can see a pattern. Normally, if – it is almost INR 550 crore a month in terms of banks on every month, disbursement will be in the range of INR 450 crore, and the outstanding will go up by something like maybe INR 200 crores, INR 250 crores. In between – in between, there will be a repayment, there will be some prepayments and even though you sanction a housing loan for 20 years or 25 years, the usual tenure is something like max 15 to 18 years. People do tend to prepay and upgrade it, take another loan.

In Can Fin, we see a lot of our old customers coming back for fresh loans or the father had taken a loan, his son is coming for a loan. That relationship works for Can Fin; that is our strength.

<**Q - Rohan Mandora**>: Okay. Actually, like what will be the average incremental ticket size in the home loan disbursement that we do in the non-tier 1 locations or the non-metro locations?

<**A - Sarada Kumar Hota**>: Non-metro locations, it will be in the range of INR 10 lakh to 12 lakh; in the metro, it will be in the range of something like INR 25 lakhs, INR 30 lakhs, INR 35 lakhs, sir. That will be the average. That is how the average works out to something like INR 18 lakh. It has gone up really for this financial year by some – marginally higher, it is INR 18.16 lakhs precisely for the average ticket size of housing. Non-housing, it used to be something like in the range of INR 10 lakhs, it has come down to INR 8.9 lakhs.

<**Q - Rohan Mandora**>: And sir, lastly what would be the employee attrition rate that we will be seeing?

<**A - Sarada Kumar Hota**>: It's almost negligible.

<**Q - Rohan Mandora**>: Negligible. Okay. Thanks a lot, sir.

Operator

Thank you. We take the next question from the line of Bunty Chawla from B&K Securities. Please go ahead.

<**Q - Bunty Chawla**>: Thank you, sir, for giving this opportunity. You have revised the FY 2018 number to INR 16,000 crores, right?

<**A - Sarada Kumar Hota**>: Yeah.

<**Q - Bunty Chawla**>: So can you – give the same number for FY 2019? Is it possible?

<**A - Sarada Kumar Hota**>: I suppose before the Q4 end, I'll give you this number. Or when I come for the Q4 numbers, I'll be giving that number.

<**Q - Bunty Chawla**>: Okay. Or something like the ballpark figure means kind of a growth which you are expecting better than the FY 2018 for FY 2019? Because what we are observing currently midcap HFCs are facing competition from PSU banks, which is in your case also. And next year, they will be getting the recap bonds, so this competition might increase in that favor. So can you throw some light on that?

<**A - Sarada Kumar Hota**>: So there are two aspects to your question. One is the competition from banks and with recap bonds, yes, banks will be having enough. As of now liquidity is good enough for all the banks, cost of funds are fair enough to really lend at very competitive rates. But going forward, what happens is the housing finance companies, they will continue to have their pace. There will be customers who will be always willing to come to the HFCs. How we attract the borrowers.

<**Q - Bunty Chawla**>: Right.

<**A - Sarada Kumar Hota**>: Something like this I stand by. I'll give one example. One time really I used to draw every point in time. For a bank, housing loan is one of the many other products. So you think of even a housing loan borrower who is availing a loan of INR 75 lakhs or INR 80 lakhs or INR 1 crore from a bank's branch. How much importance he will get in the bank's premises? And a guy who avails a INR 25 lakh housing loan in Can Fin counter, how much importance, he is a big customer for me. So the amount of attention that he receives in a housing finance company is much higher, that is where people really tend to enter a housing finance company. Otherwise always if money only matters, if only the EMI amount matters, I think only the bank having the lowest rate on its card should take away entire portfolio and we should not be doing business. If even today I continue to do business at 19% and if my new approvals are going on increasing at a pace of 14%, 15%, then I suppose there are people who still like Can Fin.

<**Q - Bunty Chawla**>: Right. One more thing on the data...

<**A - Sarada Kumar Hota**>: Only we need to wait that yes, how long and how far really the – going by the demand that exists and the number of houses those are to be built and funded.

<**Q - Bunty Chawla**>: Right.

<**A - Sarada Kumar Hota**>: I suppose the banks should have come in earlier and you require really much, many more players. Maybe, we need to – as a company that is why going by my average ticket size, we stick on to our niche area, where the bankers may not be interested this much, but they cannot handle this portfolio. If my – I'm having a portfolio of INR 15,000 crores, it comprises of 1.25 lakh customers.

<**Q - Bunty Chawla**>: Right.

<**A - Sarada Kumar Hota**>: So these numbers are not possible to handle from a bank's counter, even when I – me being a banker, I can say that yes, what is the importance we used to give to individual home loan buyer, how much time I can assign to him, when I have got many SME clients, ME clients and corporate clients to cater to?

<**Q - Bunty Chawla**>: Right. Sir, on the data part, we have observed the prepayments were around INR 500 crores, INR 600 crores kind of a run rate we were observing in FY 2017. This quarter, if you see it's almost touched more than INR 700 crores of prepayments. So can we assume this kind of run rate to continue or still it could be lower or it could be higher?

<**A - Sarada Kumar Hota**>: No, is it prepayments or is it repayments?

<**Q - Bunty Chawla**>: It's – means, we generally calculate by subtracting some disbursements and....

<**A - Sarada Kumar Hota**>: ...disbursement minus the outstanding being paid.

<**Q - Bunty Chawla**>: Yes, yes, yes.

<**A - Sarada Kumar Hota**>: Correct.

<**Q - Bunty Chawla**>: Yes, yes, yes.

<**A - Sarada Kumar Hota**>: That's where I told. We need to calculate when it comes to old housing finance companies, the arithmetic has to go this way. There was a distinct portfolio, how much is it, the five-year old, or was three0year old portfolio...

<**Q - Bunty Chawla**>: Okay.

<A - Sarada Kumar Hota>: ...on that, you need to load a percentage as routine EMI. I have got a repayment cycle on 5th, 10th, 15th, 28th. Normally, my repayment cycles of 10th and 15th will comprise of something like INR 40 crores to INR 50 crores, which comes through ECS and NACH.

<Q - Bunty Chawla>: Yes.

<A - Sarada Kumar Hota>: So that is the usual repayment, those are not prepayments.

<Q - Bunty Chawla>: Okay, okay, okay.

<A - Sarada Kumar Hota>: So that will always be there, sir.

<Q - Bunty Chawla>: Okay, okay, okay. Lastly, on the – during this quarter, we observed there has been a decline in the tax rate, just are we getting any benefit or can you highlight what will be the effective tax rate for the full year?

<A - Sarada Kumar Hota>: That is – earlier, we used to take the benefit only on the write-offs, now we're getting the benefit on provisions.

<Q - Bunty Chawla>: Okay.

<A - Sarada Kumar Hota>: So what happens, if you see my provision, it comes under 5% of taxable income and the amount I have provided current year, it has really exceeded. So my provisions are, that may be one of the reasons as well as that your provision planning has to be accordingly done.

<Q - Bunty Chawla>: Okay. So, can you just guide on the full year tax rate – effective tax rate for FY 2018, is it possible?

<A - Sarada Kumar Hota>: There is – it is only, you're getting the benefits earlier on your write-offs only...

<Q - Bunty Chawla>: Okay.

<A - Sarada Kumar Hota>: ....now you're getting directly on the provision made during, incremental provision made during the year.

<Q - Bunty Chawla>: Okay. Okay.

<A - Sarada Kumar Hota>: So that is it. So the effective tax rate will come down to something like 27.5% or 28%.

<Q - Bunty Chawla>: Okay. Okay. Okay.

<A - Sarada Kumar Hota>: From 33.5% to 33%, yeah.

<Q - Bunty Chawla>: Okay. Thank you. Thank you very much, sir.

<A - Sarada Kumar Hota>: Right, sir.

Operator

Thank you. We take the next question from the line of Hardik Sodha from Asian Markets Securities. Please go ahead.

<Q - Hardik Sodha>: Hi, sir.

<A - Sarada Kumar Hota>: Hello, sir.

<Q - Hardik Sodha>: Hi. Sir, can you give me the breakup of loan into the categories of less than INR 5 lakhs, INR 5 lakhs to INR 10 lakhs and above INR 5 lakhs and the respective GNPA for each category?

<A - Sarada Kumar Hota>: I can give you the breakup of my ticket size. GNPA in those category, I'm not giving.

<Q - Hardik Sodha>: Okay, sir.

<A - Sarada Kumar Hota>: Majority of – the percentage wise, [indiscernible] (00:54:17) almost 50% will be in the range of INR 5 lakhs to INR 25 lakhs, INR 30 lakhs, in that range.

<Q - Hardik Sodha>: Okay.

<A - Sarada Kumar Hota>: That much I can say, yeah.

<Q - Hardik Sodha>: Okay, sir. Thank you.

<A - Sarada Kumar Hota>: Less than INR 5 lakhs, we don't have much other than the non-housing loans.

<Q - Hardik Sodha>: Okay.

<A - Sarada Kumar Hota>: Somebody wants a personal loan or something related, otherwise in housing – individual housing, it is not much.

<Q - Hardik Sodha>: Okay, sir. Okay. Sir, and my next...

<A - Sarada Kumar Hota>: In more than INR 1 crore, I have got precisely 53 accounts on my loan book.

<Q - Hardik Sodha>: Okay.

<A - Sarada Kumar Hota>: All loans put together.

<Q - Hardik Sodha>: Okay, sir. Sir, my next question is sir, in Q2, we had around 177 branches and in Q3, we had 172. So was there any particular reason for the reduction of branches?

<A - Sarada Kumar Hota>: It's not branches. It's all the outlets we had kept.

<Q - Hardik Sodha>: Yes.

<A - Sarada Kumar Hota>: What we have done is, those satellite offices, we are holding around 50 satellite offices...

<Q - Hardik Sodha>: Okay.

<A - Sarada Kumar Hota>: ... which [indiscernible] (00:55:09). What we have done is, the satellite offices were opened in the off-center locations to evaluate the potentially of that area. Wherever we found that it can do good, we have upgraded those to affordable housing loan centers and they are having full-fledged power with adequate limit to sanction loans and cater to that area themselves.

<Q - Hardik Sodha>: Okay.

<A - Sarada Kumar Hota>: Few of the places where we didn't find much of scope, we have closed on [indiscernible] (00:55:32).

<Q - Hardik Sodha>: Okay, sir. Sir, my last question is in a scenario where bond yields have hardened and incremental borrowing cost on rise, so how does Can Fin plan to defend its name?

<A - Sarada Kumar Hota>: Yeah. This question I suppose it was asked earlier. I'd say that right now, a sizable chunk of my borrowings are already from the NCDs – buyers of NCDs and long-term borrowings from the banks.

<Q - Hardik Sodha>: Yes, sir.

<A - Sarada Kumar Hota>: It will – it stands protected as far as the term loans are concerned, the borrowings from NSB are concerned or the NCDs are concerned. At least these are not for those three years, in 49 months or five years that it has been borrowed for.

<Q - Hardik Sodha>: Okay.

<A - Sarada Kumar Hota>: Bank loans will get repriced annually once based on the annual resetting. So for a longer tenure, yes, we are protected, sir, as far as the borrowings are concerned. As far as incremental borrowing is concerned, we have got adequate credit line, so we'll continue to borrow below the market rates of the bond market, sir. So we'll look at whether which one is comfortable and we go accordingly.

<Q - Hardik Sodha>: Okay, sir. And what kind of margin we'll be comfortable with?

<A - Sarada Kumar Hota>: 3.5% margin, I suppose, if you are comfortable with, I'm comfortable with.

<Q - Hardik Sodha>: Okay, sir. Thank you, sir. This was my last item.

<A - Sarada Kumar Hota>: Right, sir. Thank you.

Operator

Thank you. We take the next question from the line of Madhuchanda Dey from Moneycontrol Research. Please go ahead.

<Q - Madhuchanda Dey>: Yeah. Hello. Hi.

<A - Sarada Kumar Hota>: Hi...

<Q - Madhuchanda Dey>: My question is, you mentioned that you are not going to be taking any aggressive step to increase the loan book when the environment is not right. So given that much of this RERA registrations are happening now, what is your take on FY 2019 loan book growth? Hello?

<A - Sarada Kumar Hota>: Hello, ma'am, yeah, it's the right question. I told once earlier I suppose, it's not that Can Fin has lost its aggression or Mr. Hota has lost his aggression, it's not so. What we're telling is, we don't want to deviate from the fundamentals of Can Fin and run for growth. I suppose the management as well as the board has to kind of consider a decision that when growth is there, get growth. You should be always prepared to capture that growth. So that is where we had planned – we have planned as far as our – the rights, so we are thinking about or the manpower additional incremental whatever, we required we have inducted, converted all those satellite offices into affordable housing loan centers. So wherever growth is, we are willing to and the company is poised to really capture those growth, not that we are denying growth.

Right now...

<Q - Madhuchanda Dey>: Okay.

<A - Sarada Kumar Hota>: Right now, the market that we operate in, particularly 50% of my loan book comes from Karnataka and Tamil Nadu. These places are witnessing a slowdown. Despite all those, if I continue to grow at 30%, I suppose there should be worry. So we are sticking on to our fundamentals, we'll not compromise in terms of quality. But we are ready to capture that growth. And if you ask me about the outlook for FY 2019, we are yet to formalize on a number. That guidance I will give somewhere in the Q4, when end of Q4 we come with the numbers, before that, we'll adopt up a number and we'll give. But certainly, normal arithmetic says that I think it should be phenomenal growth going forward.

The usual growth rates you will find because you can always say that the old growth rates will come back because FY 2018 has been a subdued year. First three quarters, at least across the industry, it has remained subdued and as RERA is getting stabilized because we are witnessing huge growth, particularly in those states where RERA has stabilized. That's what I told. If you exclude these two states, my growth rate you can take it as which is – they are growing at something like 6% to 7% higher than the usual growth rate that we are posting for the company.

<Q - Madhuchanda Dey>: Sir, if I may just get a clarity on this. So are you kind of not putting a number, but basically are you looking to a better FY 2019 just because the base is better because of the low base of FY 2018 or are you really seeing momentum on the ground?

<A - Sarada Kumar Hota>: Right now, momentum already we are witnessing it, we are posting on our numbers ma'am because I told as far as the new approvals are concerned, quarter one, I started with a flat quarter. My new approvals were same as the quarter one of FY 2017. Quarter two, I posted 4% growth both in terms of sanction as well as disbursement whereas quarter three, I've posted a new approvals growth of 14% and disbursement growth of almost 9.5%. So already, we are on the growth path, going forward, we can say that and this is despite – these growth rates are despite sound uninterrupted, unhindered base which was prevailing till Q3 of last year.

<Q - Madhuchanda Dey>: And just one last question. Are you seeing any kind of return of pricing power?

<A - Sarada Kumar Hota>: That will be there for all NBFCs I suppose. Maybe it's – now it is – as far as the cost part is concerned, we are not that worried, but yield part is concerned, yes, there is a pressure. So margins, holding onto the margins will be the biggest challenge for FY 2019 for all NBFCs.

<Q - Madhuchanda Dey>: Okay. Thank you.

<A - Sarada Kumar Hota>: Yeah.

Operator

Thank you. Next question is from the line of Ronak Raichura from Asian Markets Securities PMS. Please go ahead.

<Q - Ronak Raichura>: Hello?

<A - Sarada Kumar Hota>: Hi, sir.

<Q - Ronak Raichura>: Hello, sir. Congratulations on a good set of numbers. Sir, my specific question to you is on the NIMs. Now, you said that you're not concerned on the cost of borrowings, but the NIMs you said are likely to be under pressure. My question is, does Can Fin in its planning actually target a specific NIM? That is my first thing.

And second is, sir, if I just think mathematically, if all – if the loans currently which are priced in the range of 8.5% to 9%, okay, in terms of the yields and about 90% of our book is actually into housing finance, don't you think that NIMs are going to significantly contract unless we consciously change the composition of the book to high-yielding things because while our current book NIMs are 10.39%, but if you, see all the incremental disbursements are happening in the range of 8.5% to 9%. So these yields will soon catch up arithmetically and therefore, it would be really difficult to protect this NIMs? Am I right or what's your take on this?

<A - Sarada Kumar Hota>: Yeah. Arithmetically, certainly you are right, sir. I don't have to contradict. Arithmetically, it is so. If the incremental, whatever portfolio we create carries a lesser yield, then naturally the yield will come under pressure. But simultaneously if you're in a position to contain our costs and if you want to hold on to your yields, the company needs to change its mix and certainly the company is poised. And we have got our plans, that is why the madam asked that what sort of NIM margins you're comfortable with? We're comfortable around – we have been even last year has witnessed so much of competition. The last – first three quarters as well as the last year Q4 has witnessed so much of competition as far as the housing loan rates are concerned.

We have got a risk-based pricing whereas the banks don't have, except for barring, I suppose, very few, one or two that are – even at higher risk rates, we're in a position to fund. People are buying from home loans, they're taking from us. So we are looking at – there are a few non-housing sectors where we can do. We are – now that even the builder loan portfolio has – it stands regulated, even that is one asset we're looking into, but not that big way. We want to have a right mix and we're focusing on non-housing as well.

<Q - Ronak Raichura>: Correct. Sir, so is there a – so my point specifically is this that does Can Fin therefore say that okay, I target a NIM of, let's say, 3.5% or a spread of 2.7%, and then accordingly decide what should be my loan mix and then set targets. Does this Can Fin work this way or how is it because so far these NIMs have been achieved on a housing book which was almost 89% to 90% of the total loan book. So...

<**A - Sarada Kumar Hota**>: Yeah. Right now, my housing loan is 90% and it was almost around that over the years.

<**Q - Ronak Raichura**>: Right. Right.

<**A - Sarada Kumar Hota**>: The non-housing loan book should remain around 10%, but still then we're in a position to hold on to those rates, sir.

<**Q - Ronak Raichura**>: Right. So that's my point, sir. Then, now that...

<**A - Sarada Kumar Hota**>: Certainly, if the company has – company was not having a department to plan the profits and the bottom line well, I suppose consistently almost for seven quarters now, that we are holding on to these margins. It would have been difficult.

<**Q - Ronak Raichura**>: Okay. Great. So then, we are having specific plans to increase our mix – to change our mix towards the high yielding to ensure that...

<**A - Sarada Kumar Hota**>: Not only, [indiscernible] (01:05:25) the mix is one tool.

<**Q - Ronak Raichura**>: Yeah. So what other tools would be there?

<**A - Sarada Kumar Hota**>: That is one tool. There are many other tools that you can handle.

<**Q - Ronak Raichura**>: Could you elucidate some for the benefit?

<**A - Sarada Kumar Hota**>: Yeah. For example, going forward, when the bond yields are increasing, what you envisage as the trend of rate of interest regime that is going to be there in the market. I'll ask a counter question, sir. And you think of if there is a repricing. Yeah. You need to pass on. Somewhere as much you can absorb, we absorb as a customer-friendly institution.

<**Q - Ronak Raichura**>: Sir, you pass on the – yeah, so then, you leave the...

<**A - Sarada Kumar Hota**>: Yeah. You pass on.

<**Q - Ronak Raichura**>: You raise their yields on the housing loan is what you're saying – is that?

<**A - Sarada Kumar Hota**>: All the loans.

<**Q - Ronak Raichura**>: Yeah.

<**A - Sarada Kumar Hota**>: All the loans. You need to reprice – your price and the Can Fin always follows a very methodical, that's what I'm telling, it is one of the first HFCs where we have got a risk-based pricing. So there is a risk premium and there is a profit margin which is loaded and then the pricing takes place.

<**Q - Ronak Raichura**>: Correct.

<**A - Sarada Kumar Hota**>: There is a very scientific pricing process. So certainly, the company has got a very good profit planning mechanism in place and we do think on a strategy level.

<**Q - Ronak Raichura**>: So then, again, then, then the counter effect of the rising yields could be also the increasing competition because...

<**A - Sarada Kumar Hota**>: Absolutely.

<**Q - Ronak Raichura**>: ...wouldn't that also increase maybe your repayment rates will actually increase because of – so you'll have to maintain that right mix of growth as well as margins?

<**A - Sarada Kumar Hota**>: Let's hope, you need to – yeah, that is where you were supposed to put me on test and ask me questions every quarter and I'll keep on answering. As long as I'm holding on to these margins, I suppose this should give me some mark to my team.

<Q - Ronak Raichura>: Okay. Sir, my next question – my last question would be – sir, again on the NPA coverage ratio. You already covered, you said that...

<A - Sarada Kumar Hota>: 50%, 59% is the coverage.

<Q - Ronak Raichura>: ...you don't look at it, at least on the quarter, but – so, just wanted to clarify that by the year end, you expect that most of the recoveries will happen? And if that does not happen, then you will, to that extent, provide fully the NPA, so that the net NPA on a year-end basis will still be nil?

<A - Sarada Kumar Hota>: Let's see, sir. Going forward, we'll plan quarter-on-quarter. We will see the positions, our efforts are on, let's see, how it works.

<Q - Ronak Raichura>: Okay.

<A - Sarada Kumar Hota>: I'm confident that this is in manageable levels and it can be controlled.

<Q - Ronak Raichura>: No, no, that's fine. So, if it – let's say that, if there is...

<A - Sarada Kumar Hota>: Of course. Sir, one more thing, last time somebody asked a questions, and I was asking on this, on 0.46% gross NPA NIMs, I give 1000 loans, and 4.6 loans go bad.

<Q - Ronak Raichura>: Right. Right.

<A - Sarada Kumar Hota>: I suppose this is one of the finest numbers in the industry.

<Q - Ronak Raichura>: Right.

<A - Sarada Kumar Hota>: Yeah, if we really put lot of pressure only on this, then I suppose we're discussing too much on the gross NPA. These numbers are fine as long as – what happens is when we are working in thin spread, your margin comes mostly from the asset quality. So that is what has been the strength of Can Fin. And your profits, it comes from very good cost-income ratio and the managed margins. If you can hold on to your margins, when the spread is not 3.5%, whereas my margins is 3.5%, my spread is 2.5%.

<Q - Ronak Raichura>: Correct.

<A - Sarada Kumar Hota>: So with 2.6% spread, if I am managing at 3.5% margin to 3.6% margin, then certainly it comes because of the best, this very good asset quality and right borrowing at right time, and I already told you that the company has got the existing lot of high cost borrowings have been re-priced and these borrowings are locked for long term. So company is fairly protected in some cost front.

<Q - Ronak Raichura>: Right. Sir, one last question, now since you're saying that in those two major states, Karnataka and Tamil Nadu, which is about 50% of the loan book is actually slowing versus the other states are actually, are actually showing much higher growth. So is it that our incremental branch additions will be more in the non-South based states, I mean it'll not be in these areas?

<A - Sarada Kumar Hota>: Yeah. The closures were there in some of these places, where it was not growing really and the expansion, if you see the branch expansion over the last two years, we have grown mostly in non-South region.

<Q - Ronak Raichura>: All right. So which, which regions specifically are we seeing the good traction?

<A - Sarada Kumar Hota>: We have opened new branches in Kalyan, Boisar, that belt.

<Q - Ronak Raichura>: So you're saying Maharashtra, the West.

<A - Sarada Kumar Hota>: We opened a branch in Surat...

<Q - Ronak Raichura>: Okay.

<A - Sarada Kumar Hota>: ...and then, we have opened almost three branches in UP, two – three in Rajasthan, those are the Rajasthan, UP, MP...

<Q - Ronak Raichura>: No, no that I understand, so – but the traction is coming most into which Western or the Northern region, if?

<A - Sarada Kumar Hota>: Sir, any state you pick where RERA is stabilized, they are growing faster.

<Q - Ronak Raichura>: Okay.

<A - Sarada Kumar Hota>: I can say openly. So going forward, you can say that Karnataka and Tamil Nadu, not that they are slowing. See, they had slowed down, but now they are picking up.

<Q - Ronak Raichura>: Okay.

<A - Sarada Kumar Hota>: We are quite hopeful that, if this – my 50% starts delivering at the normal rate, it's a matter of time really. Now that RERA has stabilized almost, I suppose FY 2019 should be one of the best years really for Can Fin.

<Q - Ronak Raichura>: Thank you. That's it from me, sir. Thanks.

<A - Sarada Kumar Hota>: Right. Sir, thank you.

<Q - Ronak Raichura>: Thank you.

Operator

Thank you. We'll take the next question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

<Q - H. Sangameswar Iyer>: Hello?

<A - Sarada Kumar Hota>: Hi, sir.

<Q - H. Sangameswar Iyer>: Hi, sir. Hota, sir, just a couple of questions. One on the guided disbursement growth that we are talking about on a monthly run rate of INR 500 odd crores. Given the current repayment run rate that – prepayment and repayment run rate that's going on, we would still be falling short of the INR 16,000 crore guided in the presentation. Can you throw some light on that because mathematically we are falling short there? Is...

<A - Sarada Kumar Hota>: Mathematically...

<Q - H. Sangameswar Iyer>: ...are you – are you...

<A - Sarada Kumar Hota>: Yeah, Sangam sir, I got your point. I got your point. I agree with you. Arithmetically it – then you need to base calculate. If we've projected INR 16,000 crore, how much I need to disburse and how much I need to sanction every month.

<Q - H. Sangameswar Iyer>: Yeah, so are we saying that our repayment, prepayment rate might come down, because if that is the case...

<A - Sarada Kumar Hota>: That won't come down. No, that won't come down, sir, that will remain because the...

<Q - H. Sangameswar Iyer>: Okay.

<A - Sarada Kumar Hota>: ...at least the repayment won't come down. Repayment will be a regular phenomenon. It has to continue at that pace.

<Q - H. Sangameswar Iyer>: No, the prepayment part because of competition?

<A - Sarada Kumar Hota>: Because there is a – there is a portfolio – there is a portfolio, if my repayment comes down, I have got a bigger worry that my delinquencies will go up, my NPAs will go up. I want my NPAs...

<Q - H. Sangameswar Iyer>: Correct.

<A - Sarada Kumar Hota>: ...and [indiscernible] (01:12:11) people, let the repayment continue, I am willing to lend more. I see a traction. I see a positivity in terms of the new approvals and disbursements. I have got a lot of loans which are sanctioned, yet to be disbursed. So we're making those calculations, that is how, to revise from INR 17,000 crore to INR 16,000 crore and if we have given a number, I think we have done a research and we are telling it is doable.

<Q - H. Sangameswar Iyer>: Got it, sir. Sir, just going into FY 2019, when we are looking at a because you – you give a very nice picture saying that FY 2019 would be one of the best years for the housing finance companies. What would be driving the growth here? Are we saying that the base effect of RERA would actually be a big telling factor and also with RERA stabilizing, there would be a sharp uptick in most of the geographies where growth got offset because of the RERA stabilization? Is that one of the key factors which would drive the growth back?

<A - Sarada Kumar Hota>: Sir, the two key drivers will be one is RERA stabilizing, because the RERA brings in lot of genuine homebuyers confidence level in the property that he's investing in. So, that is one thing. Another one is the supply side. Now that the carpet area norms for MIG has increased, the CLSS is going to play in a big way going forward in FY 2019, these two will be the key drivers. One is CLSS; another one is RERA. Wherever RERA is stabilized and the CLSS, now supply side issues are mostly addressed because the unsold inventories are brought into that CLSS range. Of course campaign is not into the MIG 2 area or even MIG 1, we are not that big way into MIG 1, that upper range, because we cater to mostly the LIG and the MIG 1; that is people who earn less than INR 1 lakh a month in that range, not people who earn up to INR 18 lakhs in a year, that MIG 2 that falls into. So, this side...

<Q - H. Sangameswar Iyer>: Yeah.

<A - Sarada Kumar Hota>: ...sir, many big players are coming into the market, many big builders, they're coming into creating properties in this space because of the [indiscernible] (01:14:23) they enjoy.

<Q - H. Sangameswar Iyer>: Correct, sir. But...

<A - Sarada Kumar Hota>: On the supply side... yes sir, please?

<Q - H. Sangameswar Iyer>: Given that the – in the MIG 2, the ticket sizes are increasing and that is where the competition also goes up with banks selling...

<A - Sarada Kumar Hota>: We are not into that segment. That's what I told. We are not into that segment. If we want to change our characteristic and want to wherever our branches have tried to lend in that segment, that portfolio, it is difficult to hold on to.

<Q - H. Sangameswar Iyer>: Correct, sir.

<A - Sarada Kumar Hota>: So then – I cannot...

<Q - H. Sangameswar Iyer>: So then how would you see CLSS being a big driving factor for us?

<A - Sarada Kumar Hota>: MIG 1, MIG 1.

<Q - H. Sangameswar Iyer>: MIG 1. Okay.

<A - Sarada Kumar Hota>: LIG, because these – there is one more change recently that real estate was restricted to the notified townships, now it is open.

<Q - H. Sangameswar Iyer>: Okay.

<A - Sarada Kumar Hota>: So that is another factor. So these two will be the key drivers. One will be the CLSS which comes as an additional incentive for the homebuyers to advance this decision and go for buying a house, owning a home, but these are for the individual first-time home loan buyers. This CLSS is only for individual first-time home loan buyers.

<Q - H. Sangameswar Iyer>: Right.

<A - Sarada Kumar Hota>: Not for the second house – not for the second house. Let us wait for the budget is hardly few days ahead. I suppose there will be still some positive, this one we are expecting because one is the properties for investment purpose we are doing because it was disincentivized. That sort of sales are really that has taken a beating, but as Can Fin is by and large we deal only in the first-time home loan buyers, average age of my incremental borrowers is something plus 40. So we are not into that space, so we are not worried, but first-time home loan buyers, they have got a big advantage. There is a big incentive for them if they are going for buying a house. We expect that going forward that will be driving the growth. And certainly the best [ph] effect (01:16:14) FY 2018 low base, low growth is going to add few percentage points in terms of the growth is concerned.

<Q - H. Sangameswar Iyer>: Right, sir. So but do you think that then in FY 2020 only, we would be going back to that 30% plus kind of a growth rate or do you see that in FY 2019 itself, that can – that is something that will be achievable given that things are coming back into the system?

<A - Sarada Kumar Hota>: Sir, I will ask one – this one – one question. Growth rate – growth rate is one – this one question. Growth rate, growth rate is in terms of percentage, the growth rate has got it's, I had a portfolio of INR 2,000 crore, I made it INR 4,000 crore, growth is 100%.

<Q - H. Sangameswar Iyer>: Correct.

<A - Sarada Kumar Hota>: Whereas two years back, we started March 2017, March 2016, we had a base of INR 10,600 crore, now we have crossed INR 15,000 crore. It means in one-and-a-half years, we were at something like it is in – seven quarters, we were at something like almost close to INR 4,500 crores. So if it is so, in a subdued year, if this is the growth, we need to compare the quantums always. This growth rate, you tell the growth rate and I think that is doable going forward leading to FY 2020.

<Q - H. Sangameswar Iyer>: Right. Because why I asked you this question is because when you said that growth per se, achieving growth is not the right way to look at it, but achieving a profitable growth is the right way to look at it given...

<A - Sarada Kumar Hota>: Precisely. Yes.

<Q - H. Sangameswar Iyer>: Right. So, that's why I wanted to understand to gauge your confidence is whether FY 2019 is the right time to press the accelerator or FY 2020 is the right time to press the accelerator because you are more on the ground, so you would be understanding it better, that's why.

<A - Sarada Kumar Hota>: Suppose FY 2019 should be the take-off phase and FY 2020 should be the tick phase.

<Q - H. Sangameswar Iyer>: Got it. Got it. Got it. And sir, on the margin front, given that the two drivers that you mentioned earlier in the call, one was increasing the non-housing component and the second being the non-salaried class as a percentage. I mean these two would be the ones that would help us offset the competition and maintain the margins. Wouldn't the non-housing component – increasing the non-housing component be a kind of higher risk factor in the housing portfolio for us?

<A - Sarada Kumar Hota>: Not necessarily as long as you keep away from those high-risk, without purpose loans. Non-housing loan is not all lap. There is non-lap. There are so many other sectors where the company has got lot of scope to do something. That is one.

Another thing is, you need to lend into, as long as we stick on to our fundamentals, I suppose growth and margin should not be an issue, somewhere if margin is thinning, you should be in a position to make good in terms of volumes, sir. So there are many levers really the management can play with and it is up to the – how best you can manage your bottom line, it depends on how best you can handle and [ph] restock off (01:19:09) your top line.

<Q - H. Sangameswar Iyer>: Got it. What's the difference between the yield, sir, in the non-housing component?

<A - Sarada Kumar Hota>: Non-housing component will have an yield of something like almost 12.5%, 13% and housing will be in the range of around 9.5% – 10%, 9.75% to 10%, in that range.

<Q - H. Sangameswar Iyer>: Okay. Got it. Got it. Got it, sir.

<A - Sarada Kumar Hota>: Right, sir.

<Q - H. Sangameswar Iyer>: Great, sir. Thank you. And all the best, sir.

<A - Sarada Kumar Hota>: Welcome, sir.

Operator

We take the next question from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

<Q - Sangeeta Purushottam>: Yeah. Thank you, sir. Actually most of my questions have been answered. So, all the best.

<A - Sarada Kumar Hota>: Thank you.

Operator

Thank you. [Operator Instructions] Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

Sarada Kumar Hota

Yeah. I appreciate Investec as well all the investors, who participated in the concall. There was a lot of insight that the management has to carry from you. Your concerns and your wishes, yeah, that will be the guiding factors for the company and the management. Certainly, I treat always the concalls that what I clarify as far as the company's – the management's point of view is concerned as between the numbers, whatever more we can disclose, more than that there is always a takeaway for us. So thank you all. Wish you a very, very happy 2018. Let us hope that FY 2018 turns out to be – the calendar year turns out to be a very good year for all of us. Thank you.

Operator

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