



“CanFin Homes Limited Q1 FY2022
Earnings Conference Call”

July 23, 2021



ANALYST: MR. UTSAV GOGIRWAR - INVESTEC CAPITAL SERVICES

MANAGEMENT: MR. GIRISH KOUSGI - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - CANFIN HOMES LIMITED

MR. AMITABH CHATTERJEE - DEPUTY MANAGING DIRECTOR - CANFIN HOMES LIMITED

MS. SHAMILA - BUSINESS HEAD - CANFIN HOMES LIMITED

MR. PRASHANTH JOISHY - CHIEF FINANCIAL OFFICER - CANFIN HOMES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the CanFin Homes Limited Q1 FY2022 Conference Call hosted by Investec India. 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 would now like to hand the conference over to Mr. Utsav Gogirwar from Investec. Thank you, and over to you, Sir.

Utsav Gogirwar: Thank you Rituja. Good afternoon all. Welcome to the quarter one FY2022 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 of CanFin Homes Limited; Mr. Amitabh Chatterjee - Deputy MD; Ms. Shamila - Business Head; and Prashanth Joishy - CFO of CanFin Homes Limited. I would now like to hand over the call to Mr. Girish Kousgi for his opening comments. Over to you Sir!

Girish Kousgi: Good afternoon to all the investors, welcome to Q1 earnings of this year. It was a fruitful quarter in many senses that after lockdown in April we had tough time managing our book and also to get back business with whatever 45 days available in the quarter. Eventually, it was a good quarter. I will talk about the numbers a little later. Let me start with last year Q3 after COVID one. In Q3 we came back with good growth of 12% and Q4 was all time high. We did disbursement of 2000 Crores which was all time high in the history of CanFin and our NPA was at 0.91%. So, if you look at June 0.91% has come down to 0.9% and in terms of business because of second wave we got impacted, but we were able to manage on the collection front. We improved our efficiency, which was quite low in April. May was moderate and in June we picked up very well, and we were able to disburse which was equal to 123% on a Y-o-Y basis. Now, in the last few quarters we have been maintaining that our margins will come down because we changed our pricing strategy and that change was warranted because of heightened activity especially in the mortgage business, both home and non-home, largely driven by all the banks that focus on retail because corporate and SME were not taking off due to COVID and this was the fastest way to build a book and especially by doing balance transfers. So, in order to protect our customers and save the book, and those two go thereon, we had to change our pricing strategy and we changed our pricing strategy, and that lasted till about last year March that is Q4. If I have to talk about Q4 pricing, the lowest was about 6.95% and we also went up to 6.75% for some time with an offer. Now, what we have done is we have increased the rates. Now, our rate is 7.5% and also to talk about the entire portfolio, 70% of the portfolio is repriced, so we have only 30% left and MEV pricing in future will happen at a higher rate, which means I think bottoming

out of both front and NIM has already happened and from this Q2 onwards you will see improvement in both NIM and spread. In terms of business, outlook is very good. It actually started in Q3 of last year. Q3 was good, Q4 was very good, Q1 would have been very good but for COVID second wave which actually put brakes on, because it impacted mobility of both customers as well as our employees. Therefore, we had to curtail our plan in terms of business. We have been very high on liquidity, so I think there is no need to talk about that because we always are in excess of about 3000 plus Crores which will last for another five to six months' requirement. In terms of profitability, it is quite moderate. In NII, revenue has come down that is only because of the falling rate interest scenario, the yields will come down and we are also able to manage with lower cost. So, I think this really helped us. Now, if we have to talk about spread it is 2.4% and NIM is 3.31. I think going forward you will see both these going up. You know about all the numbers; I will be happy to take up any specific queries which you may have.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on the touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada:

Thanks for the opportunity. Sir, the first question I had was on the business momentum. If you could talk about how situation was in June and also how you are seeing the situation in July in terms of fresh enquiries, and overall given the trend that you have seen in the last few quarters how do you see the rest of the year pan out on the business front?

Girish Kousgi:

Actually if you see from last year Q3 onwards business trend is very good. Market is very robust and in Q1 we did business only for 45 days. So whatever business we have done is only for 45 days. Within Q1, June was very good and July also is pretty good, so from Q2 onwards business outlook is very good as long as wave three doesn't hit us. It is pretty robust. Actually Q3 onwards it is good, only thing is in Q1 we had to take a break because of COVID, otherwise the trend is very positive.

Dhaval Gada:

Sir when you say June and July were very good, just if you could put that in context of let us say what you did in 2019 June and July, how would that stack up like, last year base would not be comparable, so I am just saying the year before that, how would the current numbers stack up with that?

- Girish Kousgi:** If I have to compare with last-to-last year also the only thing is in Q1 we lost 45 days. Had we done business for 90 days.....
- Dhaval Gada:** I am saying June and July only.
- Girish Kousgi:** July is very good. In fact, this quarter we will be doing very good numbers.
- Dhaval Gada:** Understood, so basically 1300 Crore plus disbursement that you did in Q2 FY20, do you think that run rate or more than that run rate should be doable in the coming quarter?
- Girish Kousgi:** It will be far better than that number.
- Dhaval Gada:** Okay, that is what I wanted. Second thing which I was looking for is on the asset quality front. Now we have had three quarters where we have gone back to the pre-COVID credit cost trend, how do you see the rest of the year pan out and also if you could just quantify the excess provision that you carry on top of these three provisioning and standard asset provisioning, is there any buffer that is there, and how do you tend to utilize that for the rest of the year?
- Girish Kousgi:** In terms of asset quality, assuming that there is no third wave, I think we are pretty comfortable on asset quality and we are holding about 33 Crores now as additional provisions which we can utilize if need be, so we are pretty comfortable on asset quality. If there is third wave and if it is not severe, we will be able to very easily manage.
- Dhaval Gada:** So the current credit cost trajectory should be the consistent trend that one should expect?
- Girish Kousgi:** It will be consistent.
- Dhaval Gada:** Understood, that's it Sir, thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Amit Ganatra from HDFC Asset Management. Please go ahead.
- Amit Ganatra:** Hello, one question is that you excess provision, has it come down Q-o-Q?
- Girish Kousgi:** In Q2 what we have done is we have just set aside against some of the restructuring pool.
- Amit Ganatra:** Can you quantify the restructuring pool then?

Girish Kousgi: Actually we are in the process, I think by next quarter we will be able to exactly talk about that. We were holding about close to 70 Crores of provisioning; we still have an excess on that. We have earmarked some amount, so there will be restructured pool and also going by the trend what we feel is that once the term gets over about 15% of the restructured pool would actually turn out to become NPA, so we are really covered for that.

Amit Ganatra: What you are saying is that 70 Crores of excess provisions you are carrying and out of that 37 Crores now you have earmarked towards restructured pool.

Girish Kousgi: Approximately.

Amit Ganatra: Okay, and that is where now you are getting 33 Crores from excess provisions. Second question is that what has changed in the environment that you are now confident that you should get higher yield as well as higher growth, because in the past post Q3 of last year the strategy that we adopted was to try and get higher growth because maintaining both yield and growth was turning out to be tough. Is it that the competitors have also increased rates and that is why we are able to increase rates or now this is a conscious strategy that we are seeing growth anyways and that is why we can maybe get higher yields?

Girish Kousgi: Our growth story is intact, we had an outlook of growing much faster than market, that is still intact, so we will definitely grow at a faster pace. Now, we had changed our pricing strategy because of intense competition largely because of COVID. Because of COVID economy was down and certain segments did not take off big bang, and therefore all the banks were focusing on mortgage. Now, we see that market is quite robust and slowly other segments are picking up which means the intensity in mortgage business by large banks would come down gradually and therefore we thought we see an opportunity, while we grow at a faster pace we can also try and improve on margins. In fact, even earlier I had said that 2.4 and 3, now we see some opportunity where we can try and improve this.

Amit Ganatra: Okay, and one last question from my end is if you look at the cost Q-o-Q it has once again come down sharply. How should we revert your overall opex?

Girish Kousgi: Talking about cost to income, what happened was last year COVID was there for quite a long time and therefore we had to skew all our CSF spends towards Q3 and Q4. Otherwise, what you see for the last quarter is an aggression, what you see now is the right cost information.

- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from White Oak. Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity. I have two questions. The first question is on the yields, what would be the yield that we will be having on incremental lending in Q1?
- Girish Kousgi:** Incremental yield is about 7.23 and incremental cost is 4.87.
- Anand Bhavnani:** Okay, so the spread comes out to around 2.36 incremental which is lower. Do you anticipate that incremental spread to remain at this level for the rest of the financial year?
- Girish Kousgi:** That is what I mentioned, from this quarter both spread and NIM will increase.
- Anand Bhavnani:** Okay, and would it be driven by higher or lower cost of funds or both?
- Girish Kousgi:** This will be driven by one is lower cost of funds. Number two, higher business. Number three, higher yields.
- Anand Bhavnani:** Okay. Sir, in terms of your stage 2 assets, what would be the stage 2 assets as of Q1 and what was the number for Q4, and also the restructured book?
- Girish Kousgi:** You need to give us some time to get back to you on the restructured pool because it is still work-in process. Otherwise, other numbers you are aware. Stage 2 assets put together is somewhere around 400 Crores.
- Anand Bhavnani:** What was the figure at the end of last year?
- Girish Kousgi:** This is the June figures.
- Anand Bhavnani:** I wanted to understand how was this figure at the end of March 2021, so that I can compare the sequential figure.
- Girish Kousgi:** We will revert back to you. We will take the next question.
- Moderator:** Thank you. The next question is from the line of Swechha Jain from ANS Wealth. Please go ahead.
- Swechha Jain:** Thank you for giving this opportunity. Sir, I have a couple of questions. The first question is your disbursement for this quarter has been 800 Crores, while our loan book has just

expanded by 100 Crores, so I just wanted to understand, I know we have consciously taken the strategy of reducing the rates with respect to the competition, but even the loan book growth has been a little on the lower side, so I just wanted to understand how the strategy is panning out for us? Is it working for us if you could just throw some light on it?

Girish Kousgi:

It is working for us. What happened in Q1 was as I told you that we were not able to do business for 45 days, okay. Now, every month repayment is happening. Now, definitely the book will go down because of that which will come to close to about 370 Crores per month. These are normal repayments which happens month on month. Since we were not able to disburse in Q1 because of COVID you will see even the book growth slightly lower. From this quarter onwards, since there are no challenges, the book growth should be pretty good, the way we have shown in Q4 of last year and partly in Q3.

Swechha Jain:

Okay, and my second question is also around the disbursements. You said in Q2 I think we disbursed 1200 Crores last year and that was the highest disbursement all time high, right. I just wanted to understand going forward assuming we do not have the third wave or the impact in the third wave is less, and as you are saying on the ground the momentum is really picking up, in fact it started picking up since last Q3, can we assume a benchmark disbursement rate of 1000 to 1200 Crores every quarter going forward?

Girish Kousgi:

Far, far better than that.

Swechha Jain:

Okay, would you be able to give a ballpark number Sir?

Girish Kousgi:

I don't think so, but I can only say that in Q4 we did 2000 Crores, so I think if you look at the average for next two to three quarters I think it will be slightly above that. I mean the market is really robust. The only thing is we were not able to do business in Q1 which was true for the entire industry. So, it will be far, far better than the numbers which you have quoted. Just to give the additional information for the earlier question regarding the stage 2, the stage 2 assets were 1184 Crores as on March 31, 2021, and June it is 1200 Crores, there is hardly increase of around 16 Crores from March to June in the stage 2 accounts.

Moderator:

Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.

Shubhranshu Mishra:

Thank you for the opportunity. A couple of questions here, I wanted to understand what was the rejection ratio in this quarter versus what was the entire rejection ratio in FY21?

The second question is what percentage of our book is domiciled in Karnataka and further what percentage of our book is domiciled in Bengaluru?

Girish Kousgi: The last financial year rejection ratio was about 15% and now it is 11%. Historically it used to be around 10% to 11%. Because of COVID we made small changes, we had put additional filters and therefore it went up to about 15%, now it is back because we have normalized all those changes, so it is 11%, back to normal. In terms of Karnataka, Karnataka contributes close to about 36% and within Karnataka Bengaluru accounts to almost 80% to 82% of the business of the book.

Shubhramshu Mishra: Right, just one last question. What is your normalized run rate in terms of number of loans per quarter or even on a per month basis if it is possible?

Girish Kousgi: It will be approximately about 12,500 to 13,000 per quarter.

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

Sanket Chheda: My question was on disbursement only, and disbursements going ahead would be at least 18% to 20% is what you are indicating right, 1800 to 2000 Crores or more than that?

Girish Kousgi: Yes, it is on the same line.

Moderator: Thank you. The next question is from the line of Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas: I wanted to get some updates on, last time when you talked about you releasing the news on the quality of the customers who would be getting added in the loan book and hence deliberately getting a new set of customers with a higher yield, maybe higher risk profile as well, so I just wanted to get a subjective update from you as to how is that panning out and what all things have the company done in the last quarter or maybe six months to make sure that we are on track on that?

Girish Kousgi: What we did was since we changed the pricing strategy we had the ability then to focus on slightly better profile, slightly higher ticket so that we can grow our book faster and all these salaried and therefore the risk is lower. Our ticket price went up from 18 lakhs to 20 lakhs. That is the change and we also had to reorganize some of the strategies to ensure that we start choosing more from CAT-A and CAT-B developers who operate in some of the metros and major cities. Next month we had the pricing part, right. Even now, moving

forward we will have the pricing part, they may not be on par with the best bank in the country because we also need to maintain our margins at the same time we will not also get back to our pricing strategy which was there two years back where the differential between the best bank and us was about 150 to 200 bps. Going forward, we will have a difference of about 75 to 80 bps, so we will have that distinction, since we are widely spread we will be able to generate that kind of business and maintain higher yield.

Sonal Minhas: Okay, and Sir in terms of internal processes to assets, let us say a customer who is applying for a second house or let us say a top-up loan or a third house, what additional things have been reinforced in the company to make sure that this is a water-tight process and may be the approvals for that are looked at in a tighter manner because it is a new business that you are trying to get it, just want to understand that from an internal operations perspective?

Girish Kousgi: If it is a second loan and if it is a top-up then actually the process is simplified, so that the tax is better and customer experience is good because we have customer repayment track record with us and we have all the details of the customer including the repayment and therefore we have simplified the process.

Sonal Minhas: This is easier because you have existing customer, but for a new customer?

Girish Kousgi: For a new customer, the same process continues where we check on the customer profile, check the property, check his cash flows, banking, and income level. We are a little tighter in terms of calculating foyer because this is a second property, so we have all prudent credit checks which we apply and apply various filters because it is the higher side of the foyer, and then we take a call. I think these loans have really worked out to be good for us in terms of delinquency. A customer with a better repayment track record behaves well in our book.

Sonal Minhas: Understand, and in no way our customer who has less credit history or inadequate track record on the credit gets through the system of this new product segment or a category of rating?

Girish Kousgi: No, we have a mix. We also cater to first-time borrowers. When I say first-time borrowers, home, because customer might have a credit card or maybe a small unsecured which will not give us the credit history in spite of referring to bureau, so we have a lot of customers who will be first time into major exposure and therefore our internal risk assessment becomes the key. We have a scorecard to assess risk. Our scorecard is nothing but a mini bureau, so we apply various parameters and then there is a scoring done and then the risk tagging gets done. Based on that, we price and we take exposure on the customer, because of our internal

risk assessment and underwriting we are able to control that, but we have good 41% in our portfolio which is doing very well.

Moderator: Thank you. The next question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

Shalini Vasanta: Sir, I wanted to know the amount of your CP borrowing and also you have mentioned that the incremental cost of borrowing is around 4.8%, so how much of this would be coming from the CP?

Girish Kousgi: We take CP only as a backup. We do not waste CP for funding, which is our internal policy. Only if we have unutilized OD and sanctioned unutilized term-loan limits only then we take CP. So, CP is used more to leverage on cost and not for funding.

Shalini Vasanta: Okay, as a policy you would have unutilized bank limits against all the CPs.

Girish Kousgi: It is unwritten policy; it is not a documented policy. We have to keep our cost low, since we are high on liquidity I think it is aiding us to keep our cost low by raising CP as well to leverage on cost.

Shalini Vasanta: Sure Sir that helps and how much would that number be, if you could give us a number?

Girish Kousgi: CP number is about 4200 Crores.

Moderator: Thank you. The next question is from the line of Manan Tijoriwala from ICICI Prudential Asset Management. Please go ahead.

Manan Tijoriwala: Sir, I have a couple of questions. First one is, what is the yield? I see that they are reduced by 140 base points, I am not sure if this was covered earlier. Is there an annual reset also that contributes to the reduction in yield?

Girish Kousgi: For example, we have re-priced 70% of our portfolio. We do annual reset. It works in both the ways. When the rate goes down, our portfolio will get re-priced on the lower side. When rate is going up, it will get re-priced on the higher side. Now for example interest rates started moving up, you will see in the next few quarters the entire portfolio will get re-priced on the higher side, so it helps on both sides. Now, we are almost at the fag end of the falling rate scenario, and in the next one to one-and-a-half years' time we will see good lift in the yield on portfolio.

- Manan Tijoriwala:** You are saying that 70% gets re-priced annually, so is there a quarterly re-pricing as well?
- Girish Kousgi:** It is done on a monthly basis. Certain set of customers would fall due for conversion every month. In one year, we would have covered the entire cycle.
- Manan Tijoriwala:** Okay, fair enough. For example, let us say you would have generated a loan which was at around 6.9% or whatever was the rate at that point, how much would that get re-priced in this year?
- Girish Kousgi:** It will be at the card rate. For example, any re-pricing now will happen at 7.5%. Any re-pricing in March would have happened at 6.95%. So, whatever is the card rate at that given point in time let us say in that particular month, for example let us two quarters later if the card rate is 8%, any re-pricing will happen at 8%.
- Manan Tijoriwala:** Right, basically the lowest rate guy gets the lowest rate now.
- Girish Kousgi:** Now we have seen almost end of the downward rate scenario, which is why we also increased rates from 6.9% to 7.5%, so I think going forward we can see upside.
- Manan Tijoriwala:** Fair enough Sir. How much of your portfolio would be probably below 7% in the entire portfolio right now.
- Girish Kousgi:** Less than 7% may not be much, but for the origination what we did in part of Q4 that will be let us say about 1000 odd Crores or 1500 Crores max. Because we changed the pricing somewhere in the mid of the quarter, it would take that into account, even the re-pricing and all put together it will be about not more than 2000 Crores.
- Manan Tijoriwala:** Okay, Sir one last question, on borrowings, whatever is above 7% how much of it would come for re-pricing in this year?
- Girish Kousgi:** All the borrowings are ringed to the repo plus rate whatever we have from the national housing banks and other banks. Whatever we borrow from the national housing bank is ringed to their lending rates. CP as well as NCVs are at the market rates. As and when the repo changes, the rates will get changed, number one. Number two, we also proactively engage in negotiation with the bankers. We have been doing it for the last few quarters to get our term loans re-priced on the lower side.
- Moderator:** Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

- Dhaval Gada:** Sir, just one clarification. You said that you will give the restructured number in the next quarter, but just the amount that you have kept aside of 37 Crores and if I assume 10% coverage on that, that amounts to like 1.6% or 1.7% of loan. Is that broadly where we should be approximately?
- Girish Kousgi:** Yes, it will be less than 2%.
- Dhaval Gada:** Okay, got it, thank you.
- Moderator:** Thank you. The next question is from the line of Amit Ganatra from HDFC Asset Management. Please go ahead.
- Amit Ganatra:** Can you provide the total borrowing number for this quarter, not incremental, total. It was 18,246 Crores in the Q1 and what would be in the Q1 of this year?
- Girish Kousgi:** It is 19,275 Crores.
- Amit Ganatra:** Out of that you mentioned that some 4000 odd Crores is CP, is that correct?
- Girish Kousgi:** Yes. If you want to know the bucket, mixed thing, banks are 42% to 47%, NHB is 25%, market borrowing consisting of CP and NCB is 26%, and balance 2% is from the public deposits.
- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from White Oak. Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity. Sir, my question is more from a strategy perspective and more of a three to five-year kind of a question, so apologies if you find it not applicable to this quarter. The question is **(inaudible)35:10** where people will have account with NBFC account aggregator and they can easily share data and it will say it will be equivalent of UPI **(inaudible)35:33**. In that kind of environment, assuming it takes two to three years to develop, in that kind of environment where would CanFin Homes fit, because most of your customers are relatively savvy, they would bank for a better rate and they will go out, so three to five years out how would CanFin Homes be able to sustain its book and if you can share any thoughts or plans you have been doing to avoid that kind of sharp deterioration in books because people move out as technology makes it very, very easy?
- Girish Kousgi:** I think it is a very good question. As long as there are banks in this country, as long as there are HFCs and NBFCs there is going to be differential in pricing and therefore it becomes

very critical to keep our cost low and also our ability to generate business at a higher yield. Today you can look at market, there are so many NBFCs and HFCs which are in a position to generate business at a much higher yields. Today we have mortgage book at 16% yield, at 18% yield, at 15% yield, and also at maybe 7% or 8%. Market is quite big. I do not think that should be a worry as long as the company is able to manage on both sides. One is trying to generate business at a higher yield and also control cost in terms of borrowing. Fortunately, we are in a position to keep our cost low and we have the ability to generate business at a higher yield. We have done this for almost 31-and-a-half years, because only in the last one-and-a-half years we could see some change in the pricing strategy, otherwise always our pricing was about 150 bps higher than banks in general. Market is quite big and we are also tuned to doing business at a higher yield by keeping our cost low. I know that there are a lot of fintechs which are emerging, but I think at least for the next few years a fintech would probably enable faster disbursement or maybe automated sanction or automated disbursement as well as small ticket personal loan is concerned largely unsecured, but for huge exposures because there is a property and therefore there is a legal and technical angle, and currently if you see in India both legal and technical are not automated, so there is no one representative where you can refer to and then take a call, and therefore it will be difficult even for a sanction, so preapproval would be difficult whereas prequalified is a way out. We are also working on that, that we can just do a bureau pull and then a prequalified limit to the customer subject to verifying asset and other documents. So, definitely going forward company has to be agile lime to what the market needs in terms of automating, and we are on that path. Only thing is because this is home loan, long-term product, not much of a human touch is required in terms of processing and there is one more leg of property, this might take much longer compared to other loans. Second reason is that this is a high-value loan, we talk about 15 lakhs, 18 lakhs, 30 lakhs, whereas small ticket personal loans are hardly about 1 or 2 lakhs, even high-ticket unsecured loans will not go through this channel at this point in time.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you for taking my questions. Sir I have two or three questions, maybe I can ask all of them to you now and then you can answer them one by one. First of all, congratulations on a very strong asset quality during such difficult times, but what I was trying to understand is in which stage have you classified your restructured loan book and what is the pipeline like for your restructured book now, understandably what you suggested sometime back that you have taken the 3700 Crores of provisions and assuming you have made 10% provision cover. That is the restructured pool that you have already restructured, I mean the loan that

you have already restructured. What is the pipeline looking like now because people can still apply for a restructuring? This is the first question that I had. The other question Sir that I had is sometime back you shared your stage 2 numbers, very happily, it kind of just moved about 16 Crores Q-o-Q, so what is the provision cover that you are carrying on these stage 2 assets? Sir lastly, your incremental cost of borrowings during the quarter which was 4.87%, is it largely because during the quarter you raised money in the form of CPs and NHB borrowings and going forward when you will have to borrow from a debt market and from banks the incremental cost of borrowings can go up when we do not have enough and more available from the national housing banks? The last question is in the past you have guided on spreads of 3% and NIM of 2.4%, given that during your opening remarks you alluded that these rates in NIMs have now bottomed out, what is your guidance now? Thanks, those are my questions.

Girish Kousgi:

On the restructuring, we have identified, some are done, some are in the process, we have identified and therefore we have provided, but I think the overall number is going to be about 2% which I indicated on the restructuring part. This is an approximate number and based on the past trend about 12% to 15% of this pool has probability of moving into NPA, right. This is on the restructuring part. I will come back to SMA. On the cost of funds, this quarter incremental cost is because of many factors. One is that we tried to leverage by raising CP. Number two, we availed loan from NHB at a much cheaper rate. Number three, even from all the banks, both private and PSU, we were able to raise at a very, very competitive rate. Some of the rates are around 5%, sub-5%. So, it is not just one. It is not just CP or not just NHB or not just banks. I think blended is able to manage this. Even going forward, we will be able to manage cost, so this trend will continue. Suppose if the interest rates start going up, this 4.87% might go up, it might going to 4.9% or maybe 5%, in that sense we will also try to increase our yield to maintain our margins. Lastly, on margins, we had told that margins will come down and that is for a reason and the reason was that we want to grow our book during COVID. Since opportunity available for all the banks and the financial institutions to source and build the book was less due to COVID. Equity was the easy kill and therefore we wanted to retain our book and whatever business we generate we wanted to be competitive in the small market available because of COVID, largely impacted due to mobility, not in terms of real potential, at least on the affordable phase, right. Why I am saying that margins will improve over a period of time is only because we saw till Q4 we were dropping rates, now we have increased rates and we see that this trend will continue thought it will not be substantial. I think quarter on quarter you will see both spread and NIM will start inching up. I will not be in a position to give guidance at this point in time, but yes at a portfolio level 2.4% and 3% would be something which we will protect. Having said that, I think from now onwards you will see margins

improving. Regarding the stage 2 accounts, as you are aware as per the NHB or revised RBI guidelines, HFCs have to calculate the provisioning both as per the IRAC norms as well as the ECL model adopted by both, and higher among that has to be provided. In the ECL, we are authorized to collect the marketability of the security, discount a particular level, and on the balance amount provided for. Generally, ECL model is going to come down to value what provision is required **(inaudible)45:20** on account of the liquidity value consideration. So, that is why whatever the provision has been held for the stage 2 accounts, it will be as per the IRAC norms and stage 2 account consists of SMA-1 and SMA-2, that is 30 to 60, and 60 to 90 days bucket, and the provisioning generally will be as per the standard asset provisioning to be carried, which will be around 0.40% on a weighted average basis. Accordingly, the company holds the provision in the books both Q4 as well as Q1 in the current financial year.

- Moderator:** Thank you. The next question is from the line of Dhruvish from Mirabilis. Please go ahead.
- Dhruvish:** Thanks for the opportunity, just one quick question. Our BT out was 250 Crores and then it went down to 90 Crores when we reduced the rate in Q4, now that we have increased the rate again what was the BT out in Q1?
- Girish Kousgi:** In Q1 it was 57 Crores, we were able to manage that. What happens is that when the difference is big, then even customers will be motivated to switch loans and if the difference is not much then the cost of switch in terms of time, energy, and money proves out to be costly, therefore we were able to manage that.
- Dhruvish:** Okay, got it. Just if I can squeeze in a quick question if you allow, in the last call you had mentioned that our DSA payout is much less than the industry. One, that can be considered as a business risk, I mean let us say the competitor increases his DSA payout by let us say 20 basis points then the spread will increase and as a DSA he will prefer to source other NBFCs and not prefer CanFin, so how do you see that, since 55% of our sourcing comes through DSA, so it is a substantial thing to be looked at?
- Girish Kousgi:** This differential existed since decades. It is not now, so the difference in the payout is there since the last, I think, more than 20 plus years. The set of DSAs who do business for us is largely because of customer pool. Because it is customer pool, I do not think that this will impact because if at all this had to impact, this must have impacted in the last one-and-a-half years, because that was the tough patch we have gone through in the last many, many years. I will tell you why it may not impact, because we are making payout to the DSA for the work what he or she does, which is less than 50% of the work what typically a DSA

would do for any other institution because our DSA sourcing model is the same, it is only origination model and not fulfillment model. Whereas for any other institution, it is origination and fulfillment, and therefore I can part 1 and part 2, we only get part 1 done and may payout for part 1.

Moderator: Thank you. The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: Good afternoon, first of all congrats on asset quality front. A couple of questions, firstly I wanted from the start of pandemic the strategy of low yield so that you can compete with the large banks, no doubt the first quarter was hit by the second COVID wave, but once the lockdown was taken away how the trend has been and as you are at the bottom end of your guidance even in terms of the lending rate plus on top of that you were being aggressive in terms of the second home buyers and in terms of higher ticket size, so can you give some colour on July trend or going forward how confident you are, keeping in mind that the third wave does not take place, how for the full year you are confident on the guidance which you have given?

Girish Kousgi: Looking at the trend, July is better than June, and I am sure August will be better than the previous month. The trend is pretty strong. With every passing month, the month will be better than the previous month in terms of trend unless and until wave three hits, otherwise the trend is quite robust. In terms of the outlook, we are well covered and there is no issue at all. In terms of pricing strategy, it was only for short term because we had to protect our book and also be competitive in the market. Now we have seen the end of that, and therefore I mentioned earlier that you will see quarter on quarter we will be improving our margins. I would not be in a position to give guidance, but definitely we are seeing because we are increasing rates, we have increased rates now. So, I do not see any issue with respect to that. We will be able to manage.

Rahul Maheshwary: As you mentioned that you have taken a rate hike in the current quarter and previous quarter, in Q4 we have seen a record disbursement in balance transfer. Now going forward as we are taking rate hike what was the current trend in the Q1 of balance transfer because of the lower yields which you are charging and how confident you are in terms of balance transferring apart from the normal trend which is taking place because of the pricing strategy which you mentioned earlier Sir?

Girish Kousgi: In Q1 our BT was 57 Crores which was much lower than what used to happen earlier, so we have very well controlled that. Going forward, we see good uplift in disbursement and we will be able to manage BT of at least less than 100 Crores month on month.

Rahul Maheshwary: What was balance transfer in. This was BT out in I think for 57 Crores.

Girish Kousgi: BT-in in Q1 was not great because of mobility for almost 40 odd days, so BT-in generally we do about 12% to 15% and in Q1 it was less than 10%.

Rahul Maheshwary: Okay, this run rate will continue to maintain despite you have taken yield hike?

Girish Kousgi: We have to make note of one thing, we will not probably go back to our earlier levels of pricing in terms of strategy. Now we will be slightly higher than some of the big banks, just to keep our yields higher and maintain our margins. In terms of book protection, we will be able to protect because the differential is not going to be much and in terms of BT-in we will have a better chance of generating more business through BT-in.

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

Sanket Chheda: My question was largely on the strategies and may be heading more into affordable housing. Right now we are doing on an average of about 18 to 20 lakhs and in the higher ticket size mostly the players (inaudible)54:08 also have a lower cost of fund, whereas in the lower ticket size housing loan about 8 to 10 lakhs most of the players have higher cost of funds, and also (inaudible)54:23 because NBFCs are present where the banks are present in the metro cities.

Girish Kousgi: Amongst all the HFCs we are lowest on cost. I think we will continue to enjoy that advantage, and what we will do is we will have a differential pricing where we will be able to attract slightly better ticket profile and also focus on affordable just to have a blend of both the profiles as a mix to ensure that we have a higher yield. I do not see that as a challenge because we are best in the industry with respect to cost and in terms of profile we have just upgraded to the next two levels in terms of generation. In terms of risk, it will be lower. In terms of yield, it will be slightly less than earlier, but of course compared to our revised strategy a few quarters back it will be far better than that. It will be a win-win, so now we have taken a mid path with keeping very aggressive growth plans.

Sanket Chheda: Okay, so we are looking into maybe slightly lower ticket size also.

Girish Kousgi: No, ticket size we will inch up. It was 18, now it is 20, so ticket size will go up. It will be a mix of both affordable and also big-ticket loan. When I am saying big ticket, I am talking about 40, 50, 60, 80 lakhs salaried profile.

Moderator: Thank you. The next question is from the line of Ashiwin Balasubramaniam from HSBC Securities. Please go ahead.

Ashiwin B: I just wanted to know in terms of the asset quality in stage 2 and gross NPA number which have been more or less stable, I just wanted to understand in terms of collections, what was the kind of impact that you saw in terms of collection efficiency during the second wave and how has that kind of normalized, in general what has been the impact in terms of the second wave to asset quality as compared to the first wave? Second question is you indicated that the demand is quite robust, is it something which you are seeing across markets or it is more in Karnataka, Bengaluru?

Girish Kousgi: In terms of collection efficiency, I think second wave was more severe in terms of efficiency compared to first wave, even though first wave lasted for about five to five-and-a-half months, second wave lasted for about less than 60 days, the impact was more in second wave because in first wave there was morat and there was restructuring. Whereas in second wave there was no morat and there was restructuring which was announced as a reference date of 31st of March. So, we had lot of difficulty in terms of managing the collections in the month of April. Efficiency dropped, it was probably the lowest in the last six to seven quarters I must say, so we had really tough time managing that. However, we were able to pull it back in May, and June was very good. So, I think we averaged it out very well at the end of the day for the whole quarter, but yes Q1 was pretty bad especially the month of April because entire April was hit in terms of mobility and therefore we had an impact. Fortunately, we were able to pull back in May and June. Overall, if you see now, we do not see any impact on asset quality because of either first wave or second wave because even in first wave if we remember we spoke about morat percentage, we were on the higher side that was because we gave that option to the customer, we had given a default option to customer, therefore we had slightly higher number and eventually it turned out to be working pretty well because our NPAs did not increase compared to what we thought it would inch up to. Similarly, even second wave has panned out very well so far, and anyway from this quarter it will be pretty stable. To be very honest with you, we were able to manage both wave one and wave two pretty well especially on the NPA front.

Moderator: Thank you. Ladies and gentlemen this was the last question for the day. I would now like to hand over the conference over to Mr. Girish Kousgi for closing comments.



CanFin Homes Limited
July 23, 2021

Girish Kousgi: Thank you investors for spending your valuable time with us. Going forward, we will be keeping a very fine balance between loan growth as well as profitability and thank you all for showing confidence in us. Thank you once again.

Moderator: Thank you. On behalf of Investec Capital services that concludes this conference. Thank you for joining us and you may now disconnect your line.