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CFHRO SE CS LODR 264/2024
October 29, 2024

ONLINE SUBMISSION

National Stock Exchange of India Limited	BSE Limited
Exchange Plaza, C-1, Block G Bandra Kurla Complex Bandra (E) Mumbai – 400 051 NSE Symbol: CANFINHOME	Corporate Relationship Department 25th Floor, P J Towers Dalal Street, Fort, Mumbai – 400 001 BSE Scrip Code: 511196

Dear Sir/Madam

Sub: Transcript of Q2 FY25 Earnings Conference Call
Ref: 1.Our letter CFHRO SE CS LODR 262/2024 dated October 23, 2024.
2.Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In continuation to above referred letter, please find attached the Transcript of Q2 FY25 Earnings Conference Call held on, October 23, 2024.

The aforesaid Transcript is also available on the website of the Company https://www.canfinhomes.com/pages/analystmeet

This is for your kind information and records.

Thanking you,

Yours faithfully,
For Can Fin Homes Limited
NILESH JAIN
Digitally signed by NILESH JAIN
Date: 2024.10.29 17:19:57 +05'30'
Nilesh Jain
DGM & Company Secretary

Encl: As above.

"Can Fin Homes Limited Q2 FY-25 Earnings Conference Call"

October 23, 2024

MANAGEMENT:	**MR. SURESH IYER – MANAGING DIRECTOR & CEO, CAN FIN HOMES LIMITED**
	MR. VIKRAM SAHA – DEPUTY MANAGING DIRECTOR, CAN FIN HOMES LIMITED
	MR. APURAV AGARWAL – CFO, CAN FIN HOMES LIMITED
	MR. PRAKASH SHANBHOGUE – GENERAL MANAGER, CAN FIN HOMES LIMITED
	MR. PRASHANTH JOISHY – DY. GENERAL MANAGER CAN FIN HOMES LIMITED
MODERATOR:	**MR. NIDHESH JAIN – INVESTEC CAPITAL SERVICES**

Moderator: Ladies and gentlemen good day and welcome to Can Fin Homes Q2 FY25 Earnings Conference Call.

As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nidhesh Jain from Investec Capital Services. Thank you and over to you sir.

Nidhesh Jain: Thank you, Seeta. Good afternoon, everyone. Welcome to the Quarter 2 FY25 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 Mr. Suresh Iyer – MD and CEO, Mr. Vikram Saha – Deputy MD, Mr. Apurav Agarwal – CFO, Mr. Prakash Shanbhogue – General Manager and Mr. Prashanth Joishy from Can Fin Homes Limited.

I would now like to hand over the call to Mr. Iyer for his "Opening Comments". Over to you sir.

Suresh Iyer: Thank you, Nidhesh. Good afternoon to everyone and thank you for taking the time out to join the call. I would just touch upon a few important aspects regarding the performance of this quarter and then we can open it for queries.

The first thing is in terms of disbursement, we have had a good quarter. There's been a good satisfactory improvement in terms of the disbursement growth over Q1. In terms of compared to Q1, there's a growth of 28% and compared to Q2 of last year there's a 18% growth in the disbursements. In sanctions also we have seen a good growth.

Last quarter we had indicated that there are two particular states, that is Telangana and Andhra Pradesh where we have had a negative growth, or the growth has not been up to the mark. So, from those two states also in this quarter we have had Andhra Pradesh which has turned around and it is in the green in this quarter. So, only Telangana, we are having a bit of a problem, and we are going a little slow because of the same issues of registration and there are some incidents regarding demolitions and all of unauthorized properties because of which the sentiment is a little low.

Other than that, in terms of the AUM growth, we have had an improvement compared to Q1 where we ended up 9% AUM growth, we have improved it to 10%. Going forward we expect that by the end of the third quarter this AUM growth should be in between 11% to 12% and then going forward by end of fourth quarter it should be around 13%-14% or we will try to at least cross that.

In terms of the spreads and NIMs, we have had a very stable quarter. Our cost or yield has remained stable at 10.12% and in terms of our cost of borrowing as indicated in the last quarter, we were expecting a one or two basis points improvement which we have witnessed. So, therefore, the spread has improved by 2 bps and NIM also has improved. In terms of the credit cost, of course we have had a reduction in our absolute value of NPA because of which our Stage-3 provisioning has come down. There is a marginal increase in our Stage-2 provisioning. We are working on that. That is one area where we need to work or deliver in the Q3. But however, we are sticking to the same guidance in terms of 10 to 12 bps in terms of our credit cost. OPEX has been a slight increase. Mainly there is one aspect is of course a cyclical aspect where in the second quarter we announced the promotions and increments and all but over and above that in this quarter we have had a slight aspect in respect of actuarial valuation wherein because of a discounting rate we have had about 3 crores of higher cost coming in and as we had indicated in the last quarter also that we are stressing on the SARFAESI actions. So, because of that there's approximately Rs. 1 crore of expenses which have gone up because of our legal expenses for SARFAESI and all and also there is a small increase because of our communications because we have set up a marketing team. We have also activated our social media advertising and everything. So, there's been a small about 80-90 lakhs increase because of our communication cost as well. So, these are the major highlights in terms of the performance. I think along with each of these aspects, I have also guided as regards what we are looking for in the coming quarters.

In terms of the spread, we don't expect any deterioration going forward also because in terms of our sanctions we still hold a good amount of sanctions which are at very competitive rates. Another aspect which has recently happened is that we have also got a sanction from NHB for a refinance sanction which will be at a cost lower than what we are borrowing from banks and NCD and everything. So, that also should help us in the third quarter and so we don't expect any deterioration in the spread and we continue to have the same guidance of (+2.5%) spread and (+3.5%) NIM. So, that's in a nutshell the performance of the quarter and the guidance for the next quarters.

I thank you once again and I leave it open to the floor for queries.

Moderator: Thank you so much sir. Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Mr. Rajeev Mehta.

Rajeev Mehta: My first question is on the increase seen in SMA-0 and one particularly in Q2. So, Q1 was understandable but Q2 we have seen even higher increase in SMA-0 and 1. It also indicates collection drop at the first place. So, just wanted to understand why it happened and is it also in some way linked to, I mean were these accounts more on the side of self-employed home loan or LAP? And if you can comment about the reversibility of this increase in the coming quarters.

Suresh Iyer: This increase in SMA-0 has been not much, however, SMA-0 is mainly on account of a small regulatory change where we had this tendency of customers paying some small amounts in advance and used to be up to one EMI as advance because of the payments which were received from the customer. So, some one or two small blips like one check bounce and we have to redeposit or something of that sort. Those kind of customers would generally the amount would get covered from the advance. So, there was always that impact. But one of the recent circulars said that any excess amount has to be credited to the principal. So, to that extent that small flexibility has gone. But that is more of a cyclical thing because what we are seeing is that when the next NACH hits that whatever Rs. 50-100-200 small amounts get adjusted, and they are cleared. So, SMA-0 is not a problem. SMA-1 yes, there has been a slight increase as I indicated. In fact, what we have observed is that our SENP we have had a slight improvement. The improvement that has come in our NPA also is also mainly in respect of the SENP category where we have seen. So, there is no that kind of concern that we see in terms of a segmental issue which can affect our collections. But yes, about 102 crores approximately increase in our SMA-1 plus SMA-2 which is what we need to work on in this quarter. So, this third quarter we will definitely be focusing on bringing this down. But we don't see a problem in this sense as I indicated because we it's more of little extra effort we will have to put it. That's fine.

Rajeev Mehta: And also, what explained that were able to hold on the portfolio yield. So, firstly if we can give out incremental lending rates in salaried home loan, self-employed home loans and LAP on a blended basis. What is the incremental lending rate here? And is there any other factor besides the product mix which is supporting yield as well on the portfolio basis?

Suresh Iyer: See in terms of our product wise pricing and all, there has been no change in Q2 over Q1. So, the main reason for this yield holding up is only because there’s been a slight improvement in our as we had already indicated that there's a scope for us to improve a little bit of our SENP and also there is a little bit of a scope to improve on our LAP, although LAP has not been increased much, it's a very marginal thing. But our SENP, which used to be around 28% now we are having about somewhere in the range of 35% to 38% is the incremental SENP category lending that is happening. So, to that extent our half a percentage extra that we used to charge for the SENP over salaried segment that is helping us in holding up our yield.

Rajeev Mehta: Lastly if you can just tell us the mix of bank loans in terms of the benchmarking MCLR, repo and the other shorter end benchmarks, the composition of bank loans.

Suresh Iyer: Last quarter we had a 40-40 breakup of bank term loans linked to repo and MCLR. We have had some MCLR linked loans. We have either reprice or we have repaid and that is why now and moved to repo linked loans. So, we have about 45% of our bank term loans which are linked to repo, 35% linked to MCLR and the balance we have T-bills and all those things. So, basically only 30 that MCLR linked loans are now reduced from 40% to 35%.

Rajeev Mehta: Would we be allowed to use the NHB sanction in repaying the MCLR linked bank loans? I mean is that allowed, or it has to be only used for refinancing of the asset? Can we have that arbitrage in our favor when the money comes?

Suresh Iyer: It is for incremental creation of portfolio, that has to be there for incremental portfolio that we will be assigning and creating.

Rajeev Mehta: Not on the existing MCLR loans?

Suresh Iyer: No. We will be able to use some other, that flexibility is there to use because we have another 2,000 crores sanctions. So, that increases our sanctions on hand. So, that definitely it will help us to free up some more thing which we can use to repay the MCLR linked high-cost loans.

Moderator: We have the next question from Mr. Shreepal Doshi from Equirus.

Shreepal Doshi: My question was on pricing and margins. So, it's given the portfolio mix marginally shifting towards better yielding and also there might be some possibility of portfolio repricing. So, do you believe that we can actually do a better margin this year than last year?

Suresh Iyer: In terms of the pricing going forward yes, we will have a little better yielding portfolio which will get created. So, that is there. But we will have to see how we are able to reprice. In fact, it is more likely that we will be able to benefit from the repricing of the liability side rather than from the asset side. That is more likely possible. As I just mentioned to the earlier question also, that our MCLR linked loans and some of our high cost linked, now that we have a higher sanction on hand, we will be able to maybe reprice or repay some of our high-cost borrowings and MCLR linked loans. And going forward when the rates start coming down yes that will benefit us. So, on the yield side not as much as from the liability side.

Shreepal Doshi: And the second just on this SMA-1 and 2 pool. So, as you highlighted that it is not much of a concern but because typically what we see that from 1Q and 2Q the seasonality sort of moderates and collections start to improve. But despite that this quarter has also not seen that. So, what are the aspects that you are seeing which is giving you comfort that in 3Q we will be able to sort of recover these accounts.

Suresh Iyer: As I said this slight change in this guideline where we are not able to keep an advance around that is in fact giving us a slight flexibility that we had, has gone. So, therefore the flowback is also if it happens, we are not able to come back. And some customers always have that seasonality or some delays they keep making and collection has to be a little more extensive for some of the segments and small pockets. So, those are the ones where we are having it. But we will be deploying more people, and we will be taking some more things. In fact, we have already started taking certain actions for those kind of things. So, I think it should not be. My comfort comes from the fact that from two points actually, as to why we believe that our NPA and gross NPA our collections will improve. One is that in terms of our restructured portfolio, our collections have come down considerably and our NPA has also reduced, which was in Q1 at 18% of the outstanding restructured book has come down to 17 point something percent in the restructured book. So, that is one thing. The second thing is in terms of as I mentioned earlier also our collections or our reduction which has come in our portfolio that is coming more from the SENP segment, which is generally considered to be a little more sticky. So, these are the two aspects why we believe that it should not have an impact. And to some extent yes, the collection efforts that we are putting will also bring in some support. So, that's basically the three reasons why I believe they are confident that this would not have a problem.

Moderator: We have next question from Mr. Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Just 2-3 things first. First, just trying to understand while this has been a good quarter, I'm just trying to understand how should we look at the industry in general? Why I ask this is today if you look at the small ticket size or what we call as the affordable housing segment where we are seeing growth sustained. But if on the other side we look at some of the large HFCs who are slightly higher ticket sizes, there is indeed tightness in terms of growth. So, if you could just explain this dichotomy which is there from an industry perspective and then a related question that while for the full year FY25 you guided for 13%-14% kind of a loan growth, how is it going to translate into disbursement momentum for the next two quarters and then will we be running for higher loan growth from next year onwards?

Abhijit Tibrewal: First of all, as to your first question regarding the segment that affordable housing companies are doing better, and higher ticket loan companies are having an issue. Actually, if you look at our quarterly performance, in fact that same trend which we had in the first quarter is continuing wherein our (+20) lakh segment is where we are seeing the growth. And even if you look at the simple fact that the cost of construction also today even in the smaller Tier II towns, the property values are not anywhere below 25 lakhs. So, an affordable segment it's a different segment that you have a segment of unbanked or maybe all those kinds of appraised income where formal income segment is not there and all. But in our case in fact, it is a (+20) lakh segment where we are seeing the growth. So, I don't see any issue in that and as I also mentioned in the first part itself in the opening remarks, that our growth is in fact we have witnessed across geographies except for the state of Telangana. So, even Andhra Pradesh we have seen the same trend that across the board we are seeing the growth has come from the (+20) lakh segment. Maybe it could be some other reason, and we don't see that kind of a thing. Even in terms of sanctions if you see, our growth has been very strong in the Q2 compared to Q1. That's the reason we believe that there is a good amount of scope, and we don't expect the thing to come down. That is the first part. And in terms of your guidance that we are talking about 13% to 14%. See normally first half it's 45% and second half we witness normally 55% of the disbursements happening. That's the general trend. The second half is always better. Now if you go by that we have already done about 4,500 crores close to that we have done in the first half. Going by that argument another 5,500 is anyway is what it should happen even if you go by the past cyclical trend. That plus whatever extra push that we are making is what we believe will bring us to something more than 10,000 crores by the end of the year which is what should get us the 13%-14% kind of a growth. I hope I have answered your question, Abhijit?

Abhijit Tibrewal: Yes, sir you answered. So, when you are expecting a similar growth trajectory the next over the medium term, beyond FY25 as well?

Suresh Iyer: Beyond '25 also I believe this trend should continue because we are putting in place a lot of things like one is we are broadening the geographical presence. In last year also we opened branches mostly towards the north and west. This year also we are doing it. So, basically, one step we are taking is we are broad basing geographical presence. The second thing we are doing is we have opened up the segments like as I mentioned this SENP slightly improving. We are also open to a little bit more of LAP although which is right now only about 5% and this quarter has not seen much. Plus, as I mentioned we have initiated the activities for marketing. We have also set up a small marketing team and all. So, going forward all those things should translate into better business and a more sustainable business going forward beyond FY25 also.

Abhijit Tibrewal: The second question I had was I mean again on asset quality lot of discussion has already happened on SMA-1 and SMA-2. But my question was more generic given that in the last maybe one or two quarters, there are banks there are NBFC who started talking about more of a broad-based kind of stress that we are seeing in both in retail and SME. However, having said that we are not talking about that stress in the housing segment or the mortgage segment today. So, just trying to understand, are there any indicators which would suggest that some of the stress which is there in unsecured today can spill over to the secured segments as well like mortgages?

Suresh Iyer: In terms of the unsecured segment obviously there has also been some regulatory tightening and that also would obviously have impacted the repayments and everything because a lot of it is more one loan lend tends to other which is exactly what the RBI pointed out. In terms of a housing loan, however, that particular tendency is not there. So, I believe you cannot compare the unsecured loan vis-à-vis the housing loan and particularly when you are talking about a self-occupied residential house that we are talking about, unlike the personal loans and short-term loans which are more for consumption or for investment or speculation or whatever. So, these are two completely different segments. So, housing loan should traditionally also reflect a better repayment compared to the personal loan and short-term loans. And that is precisely what since our self-occupied residential is what we are mainly focusing on therefore that is something which is not yet reflected.

Abhijit Tibrewal: And then my last question was while you've already given out your bank term loans what is the mix between repo, MCLR, and T-bills. Just trying to understand, hypothetically speaking let's say if there is a 25-basis cut in the repo rates, how will and what duration will that translate in our liabilities? In other words, out of 25 what proportion will reflect in our lower cost of borrowings and over what period and commensurately having seen so many cycles, typically is it the case that in the initial part of a rate cut cycle margins will be under pressure and then if they will pick up as things go along?

Suresh Iyer: As we mentioned about (+60%) of our borrowing is on the through bank term loans and about 45% of that is linked to repo. So, any reduction in repo will immediately translate in about 25% of our book on the liability side which will experience a 25-bps benefit. So, which means if 25 bps reduction is there then we will be in a position to pass on somewhere in the range of about 10 bps max down the line to our customers. And we have already moved effective January. Last January we have moved our reset cycle from annual to quarterly. So, on a quarterly basis we will also pass on. And we have in the past also been very fair and we have passed on immediately without much of a lag. So, at most if at all there is something it will be for a quarter that we may be enjoying a little bit of a benefit in terms of the interest rate. As soon as the repo rate cut is announced the banks will have to immediately pass it on to us and at the next reset cycle, which is in a quarterly cycle, we will also pass it on to our customers obviously on a pro rata basis which is 10 paisa to 25 paisa kind of a thing.

Abhijit Tibrewal: Just to clarify that, when there is a 25-basis point cut depending on how it affects your cost of borrowings on a pro rata basis on a proportionate basis you will be passing it on because our home loans are not really linked to repo?

Suresh Iyer: Yes. We are not required to link it to EBLR.

Moderator: We have next question from the line of Ms. Shweta from Elara.

Shweta: I just have one question. So, while you were alluding to growth targets of 12% to 14%, one what is the growth target for next year? Two how much steadiness do you see on the repayment scenario and if you could throw some color on BT out cases?

Suresh Iyer: I think I missed your second question, not very clear. But I'll just answer, first of all in terms of our BT out, we have a total close to 3.75% quarterly repayment which is happening which comes to somewhere around 15% for the entire year. Breaking up into our how much is part prepayment how much is amortization, and the rest is closures and BT out. Our BT out, out of that 15% is about 4%, 4%-4.5% reserves of closures and BT out, the remaining 10%-10.5% is either part prepayments where customers continue to service the balanced portion of the loan or amortization impact which is there. And growth, for next year I think we would continue to have about 15% to 17% is what we would aim in terms of the AUM growth.

Moderator: We have next question from Pavan Kumar from Ratna Traya Capital.

Pavan Kumar: I wanted to understand what are the new geographies that we are entering in terms of number of branches, do we plan to increase the number of branches and what would be the strength of our sales force team as of now and what are our internal targets, about how much of the new business can be sourced through our own sales team?

Suresh Iyer: In terms of our branch expansion, we are planning for 15 additional branches in this financial year, and this would be mostly in the north and western geographies. In terms of a sales force, we don't have a dedicated sales force in a large sales force. We have just started a marketing team, sales team that is, and we have a very small team. We are just experimenting in the north and west mainly. So, in a couple of states, we are doing it. So, we don't have much of a sales force presently in the on-ground kind of a thing which we, however, will be building as we go forward. So, this is a small pilot which we have done, and this has started showing some results. In the long run we expect about 20% of the business to come through this sales channel and our sourcing should come down from the present 80% to about 60%. That's the breakup. 60-40 is our goal which we expect to achieve in the next 2 years by FY27. We expect to bring it down to 60-40.

Pavan Kumar: But are we planning to hire new people from the market for ad marketing as of now?

Suresh Iyer: We will be either from our existing teams wherever possible wherever productivity limits are allowing us, we will take from our existing teams also. Otherwise yes, we are open to in fact slowly build our sales force through lateral hiring.

Pavan Kumar: New states. We are talking about in north India that you are entering. So, I was just curious on what are the new states.

Suresh Iyer: We are not looking at new states. We are already present in almost all the states in the west and the north. We will be expanding or going deeper in these geographies basically. Like last year we are already there, like last year we opened branches in Bikaner, Pali, then we have in Ratlam, Ujjain. We had in Saharanpur and Meerut and so on. So, basically, in the existing geographies we are looking at deepening our presence and opening offices in Tier II towns.

Moderator: We have next question from Anusha Raheja from Dalal & Broacha.

Anusha Raheja: What is the incremental average ticket size of the loan?

Suresh Iyer: Average ticket size, we have not seen much of an increase in our ticket size. It's still recovering around 25 lakhs.

Anusha Raheja: And on a blended basis what will be the average ticket size?

Suresh Iyer: That's what I said, on the blended rate it is about 25 lakhs. But we are seeing more of a rise in the 20 to 30 and 30 to (+30) segment. And yes, so it's a little in the decimal increase would be there but otherwise it is in the 20 to 30 and (+30) segment only we are seeing a growth and average ticket size is around 25 which should inch up to around 27 in a year's time or something.

Anusha Raheja: And on the margins, if I have to sum it up, you said that there could be positive traction on the margin side that will come more from liability repricing. But in a declining interest rate scenario we are in a competitive world. Even banks are also there in a similar set of loans. So, if banks bring down their rates on the home loans, is it not possible that you will also have to bring it down and so that might result in the stable margin profile?

Suresh Iyer: There are two things to this. First is that our reliance on deposits is a very small percentage. We have a less than 1% or thereabouts in terms of our deposit reliance. So, therefore, our main cost of borrowing is impacted mainly because of the bank borrowings, NHB refinance and NCDs. Whereas in terms of the banks and some of the larger players, their reliance on deposits as a source of funding is much higher. As a result of which today looking at the rates at which the deposits are being raised, definitely the incremental cost of borrowing is unlikely to kind of come down. So, the flexibility to reduce the rates, I feel it would be a little less for some of the bigger players as compared to us. And in our case anyway, if the competition is not reducing the rates obviously we would not reduce the incremental lending rate except for the whatever rate benefit we have to pass on to our existing customers.

Anusha Raheja: Any qualitative 32.06 how much could we see a margin traction or the expansion from broad view there?

Suresh Iyer: We our endeavor would be to repay some of our high-cost bank borrowings or things like that. But of course, I don't have a number right now readily available as to how much you'll because it is obviously also a matter of how much we can discuss with the bank because it's a long-term relationship we have. And so, it's not going to be very aggressive. But yes, our endeavor is going to be there. We will try to negotiate and if possible if banks willing, we will be able to reduce it. Otherwise, we will have to also look at it. But I don't have a figure. But that is one avenue which is open to us to kind of bring down our cost of funds.

Anusha Raheja: And just one last thing. On the mix of the loans between self-employed and salaried, we are seeing a good traction on the self-employed segment. So, any ideal mix that you are aiming between the two?

Suresh Iyer: Yes, actually we had about 72% salaried and 28% self-employed. But incrementally it is right now around 35% or that about 35 38% is coming to self-employed. But on the overall mix, we are still closer to the same 70-30 or thereabouts only. We are open to go up to 65% in the salaried and 35% in the self-employed. In the near-term range and in the next 2 to 3 years we are okay up to 65-35, on the AUM basis of course.

Anusha Raheja: So, you said that you would be opening closer to around 15 odd branches current fiscal. So, can we expect a similar sort of trajectory over the next 2 to 3 years' timeframe that this expansion will continue in FY26 and '27 as well?

Suresh Iyer: Yes, we are looking at up to 300 branches by FY28. So, we will be looking at around 15-20 branches in the next years as well.

Moderator: We have next question from Antariksha from IPru.

Antariksha: Just one small question. This is regarding this 4th October draft circular by the RBI regarding similar lending by group entities for banks where they're proposing not to do similar activities under different related group entities. Any conversation with your parent or any discussion on comment that you would offer?

Suresh Iyer: Not yet because right now it is still at a draft stage. So, I believe all the banks have been given time till November 21st or something to give their feedback. And I believe there is already a thing that looking to the kind of, there is also a little bit of ambiguity in terms of which all segments it covers because it is not only going to affect housing finance companies, it's also going to affect all the personal loans or this vehicle loan companies, it's also going to affect insurance holdings and stuff like that. So, maybe some more clarity will be definitely sought and there definitely is going to be some more discussions which may happen before we finally see something coming out of it.

Moderator: We have next question from Kushan Parikh from Morgan Stanley.

Kushan Parikh: I have two questions largely around the asset mix. So, obviously you said that we are comfortable with taking salaried down to 65% and 35% self-employed. Do we have a similar target mix that we are looking at between housing and non-housing, essentially LAP? And just also from a data keeping perspective within LAP, could you help us with the collateral share as in how much would be against residential property and how much against commercial? That's my first question. Should I put in my second question as well?

Suresh Iyer: Yes, first answer this if it is okay. In terms of the projected mix for LAP, as I said for salaried, self-employed we are okay with 65-35. For LAP right now we are around 5%. We would be okay going up to about 7% because eventually in terms of our excluding, after eliminating the CRE portion of the housing portfolio also, the pure housing we would like to kind of keep it up to around 70%. So, keeping that in mind we have a scope to around 2% to 3% of extra leeway that we are currently having, of which you would like to have LAP going up from 5% to 7%. So, that is one thing. And in terms of your LAP breakup, actually most of it would be housing. Though I don't have an exact number right now, I think we are mostly doing only against LAP also, it's purely against residential only. Commercial LAP and even commercial lending itself for us is very small. So, out of 5% I don't think it will be more than 0.5% but I don't have the exact number to be right now off-hand.

Kushan Parikh: That answers my question. And if I can put across my second question to understand basically on the Telangana part. So, on the Telangana situation just wanted to understand if you started seeing an improvement in 3Q and when you target (+100) billion disbursements for the full year F25, does that include any improvement in the Telangana situation or that is irrespective of the current situation?

Suresh Iyer: In Telangana we have at least Q2 has been quite stable, although we have not had a positive growth. But last quarter we had this issue. So, after that I myself have visited also. So, basically, there is a little bit of discomfort among the builder segment and all because there have been some demolitions and stuff like that, obviously doesn't affect everybody. But still there is a slight cautious approach taken by the developers. So, the present what we are looking at in terms of this disburse target that we have given, we are looking at a steady state Telangana performance what is there in Q2-Q1. So, obviously if it improves that will help us. But I don't know how long this will take because normally these kind of things are generally clarified well in advance or quite quickly by the government. But this has gone on for this is the second quarter we are experiencing this kind of a thing. So, if it improves it will definitely help us. Does that answer your question Kushan?

Kushan Parikh: Yes, that answers my question.

Moderator: We have next question from Omkar Shinde, who is an individual investor.

Omkar Shinde: I wanted to understand, you have mentioned that there is a technology upgrade that is initiated, and which will go live by next quarter. So, what is this technology change that we are doing and how is it going to help for the business, in what sense is this?

Suresh Iyer: We have a present LOS-LMS package which we are upgrading. That is the first phase of our technology transfer that we are doing it. So, that is something which we have already implemented in the sense that it is already tested. The UAT has been completed. Our parallel run across branches has also been completed. So, that is going to be implemented now. Now once that happens of course, it will enable us to in fact add a lot of other third-party solutions also to it which already we have quite a few of the smaller modules, we have already implemented like we had in the last two to three quarters, we have implemented the tie up with Velocity which is for valuation. We have tied up with this solution for us, a little bit of a CRM and marketing. So, a lot of things we are already doing. So, these are the things which will be possible. So, this is the first phase of the upgrade for which some of the cost aspect has already been incorporated into our expenses because this started from January '24 onwards. So, in Q4 of last year plus Q1 and Q2 of this year, the impact of the cost impact which is about 3 crores per quarter increase that has already been factored in.

Omkar Shinde: So, is this like some platform based like Salesforce or Oracle something like this or this is something entirely different? Is it existing and on top of it we are upgrading?

Suresh Iyer: No this is an existing one which we have been using for the last many years, almost a decade kind of a thing. On that we are upgrading because with the help of the vendor we have upgraded quite a few aspects in that solution. Even in the UI/UX we have made a lot of changes. We have kind of made it a little easy for the users to use and we have also enabled a lot of features like they have their own CRMs, they have their own kind of thing. So, all those things we have done it. Vendor management we have implemented, reconciliation modules we have implemented.

Some of these things we have already implemented but these enhancements that we are doing which is now going live in this month that will allow us to add quite a few new modules as well. It is old one.

Omkar Shinde: So, what are we looking to gain from, so will this improve the productivity or how will this impact the business going forward? That is also I want to understand.

Suresh Iyer: There are two benefits basically which come from it. One is of course as I mentioned the UI/ UX. So, the from the user point of view a lot of things are already incorporated. We are also from once this is implemented; we will be able to streamline a lot of things which are presently being done manually. So, that should help us in terms of productivity. Like once this is done the CRM module can be incorporated. The CERSAI module which is now being done manually can be incorporated. Of course, we have done the Karza, and we have done this Velocity and all those we have already done. But those are operated separately. This can also be incorporated into the same existing module. So, the flow which is there which also will become a little more seamless. This will help the users also to kind of improve. There will be an improvement in our TATs to the customers also.

Omkar Shinde: So, what is the current TAT now and how do you see it going?

Suresh Iyer: Right now, also the current TAT would be around for a salaried customer about 3 to 4 days and for the self-employed it would be a little longer maybe about 7 to 10 days. So, we are expecting from there also if it's a salary customer and a high-profile customer and everything is absolutely clear, I think the TAT should come down by another 1 or 2 days.

Omkar Shinde: And finally with respect to incrementally we are seeing our disbursement being towards more than 30 lakhs. The share is increasing. What I wanted to understand is, do we then see any benefits coming from the PMAY scheme or I will that not affect the business much because the scheme focuses more on the 25 lakhs and below segment and we are seeing more traction in the 20 lakhs above and 30 lakhs above. So, I wanted to understand that.

Suresh Iyer: The PMAY once it gets implemented and gets rolled out in a full manner, the demand for home loans also not really improved. Although this scheme has a much lower benefit compared to the previous PMAY CLSS 1.0. The CLSS 2.0 has a slightly lower benefit, and it is spread over 5 years. So, yes, there could be some benefit which would come from it. In the past whenever customers have come, this would definitely help. The other thing is in PMAY 2.0 the government is also looking at a portal from which the customers themselves can select the vendor or the lender with whom they want to go to. So, they have to choose three to five lenders whom they want to go to, and the data of the customer will go to those here. So, in fact right now it is more of a sales driven kind of approach where we are doing (+20) segment and all which is more directionally we are trying to focus on that segment. But here there will be a lot of inbound kind of a demand which will come to us through the portal once it gets implemented. So, there yes, it can help a little bit but how soon they are able to implement it we don't know.

We will have to wait and watch. The scheme itself gets these operations from 1st of September only.

Omkar Shinde: Just two data keeping points. What is the login to sanction ratio and the sanction to disbursement ratio?

Suresh Iyer: No log into sanction ratio. Once the sanction is there it is obviously linked to the Stage-of construction and to the kind of product. So, that is something which we cannot change. If the customer takes two months to go to the next Stage-of construction, then obviously the next disbursement will happen after two months only. We are talking about the log in to sanction data.

Omkar Shinde: Yes. Log into sanction, what is the ratio? What if application was of say X amount how much of it is sanctioned? I wanted to understand that.

Suresh Iyer: You are talking about the funnel. The funnel, if you see our data also. That we have about 90% of the cases are getting sanctioned. If you see the sanctions right now, in our presentation our sanctions have been almost 2,600 crores and disbursements have been 2,380 crores. So, that's almost like a 90%-95% is the flow through.

Moderator: We have next question from Jigar Jani from B&K Securities.

Jigar Jani: Couple of questions, on the OPEX front because you said that most of the tech investment over the last three quarters you have done 3 crores every quarter. Do we see any material change in the cost to income ratios going ahead? Do we expect an improvement? And I believe there was another big project wherein we were trying to kind of revamp the entire IT system also. Any update on that because I believe 6 months back, we were talking about that as well and whether that could be taken up in FY26 and correspondingly what would be our cost to income assumptions for FY26? Similarly for credit cost, this year we have seen significantly lower credit cost of 10 to 12 bps. Do we maintain the same guidance for FY26 as well on the credit cost front? These were my two questions.

Suresh Iyer: In terms of IT costs, the changes that we have made in the last two to three quarters, they have already been there. As I said the major component is the upgradation of the present package, the LOS-LMS package which is approximately about 3 crores per quarter. And that has already come in to the picture from January onwards. Yes, there are a lot of small packages which we are also incorporating which we are also doing it. A lot of it already comes in, it's part of the upgrade that we are already doing. So, it will not have very much impact in terms of the cost going forward at least not the Phase 1 that we have seen. It's already been factored in. Second thing you mentioned is your question was regarding the major IT transformation project which we had done. So, we had an RFP which was floated, and we have already received six bids for it and we are right now under the evaluation stage. We expect to close that by end of December and award the contract to one of the SI's. Once that is done the project is estimated to take about

9 to 12 months. So, it is not I would say probably somewhere in the Q3 of next financial year is when we will see it implemented. Obviously, I don't know the cost because till we open the bids, we don't know what is the cost expected. But at least what we believe is that a major component would be the CAPEX. The OPEX would be somewhere around 30 odd crores, 30 to 40 crores would be the actual cost which would be there. Presently we are already spending about 15 crores as OPEX in terms of the IT. So, if it goes to about 40 also, about 20 to 25 crores is what we expect the incremental OPEX on annual basis to go up once the new IT project is implemented somewhere by end of December ‘25. So, that is the point. As regards the credit costs, well yes, traditionally looking to the kind of portfolio the kind of NPA ratios and all that we have had where our gross NPA's have always been below 1% and we are right now also in the same phase. So, going forward also I think that should eventually work out to around 10 to 12 bps in terms of credit cost only.

Jigar Jani: For the project which we had mentioned last time? The CAPEX estimate was about 60 crores for the IT project?

Suresh Iyer: So, initially when we had looked at the first RFP, the budget was around which we had announced into 2022 which we actually didn't go through. At that time the cost was about 60 crores would be the CAPEX and then about 25-30 crores, 30 crores approximately for a period of 7 years would be the OPEX. That is what was the initial approval which we had taken from the board, and which was the kind of expectation there. But as I said since then 2 years have kind of relapsed. So, we are not sure as to what would be the cost. But yes, if you look at the simple IT costs have gone up. So, we are not sure whether it will be in the range of around 300 crores instead of 250 crores or it would be around 350 crores. So, that would be the kind of range. I don't expect it to beyond that.

Jigar Jani: So, 250 to 300 crores should be the total cost.

Suresh Iyer: The 300 crores or something is what I'm saying about is the OPEX plus CAPEX over a period of the next 7 years is what I'm talking about which was earlier 60 plus 30 over 6 years was somewhere around 250 crores which probably could be around 300 crores. So, if that happens probably instead of 40 crores it might be about 45 crores also.

Jigar Jani: So, largely it will be in the OPEX books, it's what I understand because it is over 7 years, and we are expecting 30 to 40 of OPEX. So, it's mainly in the OPEX pole in which you will be doing this.

Suresh Iyer: The OPEX it would be as I said around 35 to 40 crores which is currently around 15 crores. So, that would be the impact.

Jigar Jani: And lastly just on this PMAY scheme, can you just go some color? Because I was speaking to someone, and they were saying that now probably the government is thinking of giving the subsidy directly into the customer’s account as against adjusting it from the principle of the loan.

So, have you got any profane color? Whether that is how it is going to happen or it is like how it was running in the past, it was adjusted from the principal outstanding.

Suresh Iyer: No, it will be from the principal only. That is how it is going to be. And this time we recently had because what has happened is the government has now released the draft MoU also. And the government is expecting to kind of execute this in the next month or so. So, if that happens that is what it is. But what indication during that meeting which we had was that the government will continue to make the payment to the PLIs and the PLIs will have to give an immediate transfer to the customers loan account and the entire amount will go towards principal which in fact the case in the previous version of CLSS also, where the entire amount had to go towards principal and cannot be adjusted towards outstandings or any overdues or anything of that sort.

Jigar Jani: And this will be split into five parts. So, the principal rundown will be a little bit slower than what it was earlier.

Suresh Iyer: Not only will the rundown be less but this time the government has done two very positive things for the industry. One is that if the customer transfers the loan during the period of the PMAY scheme or when the payment the balance payments will not be made. So, if the customer has to avail the entire benefit of the PMAY then the customer will have to continue the loan for a period of 5 years with the same institution. So, suppose somebody has taken a PMAY benefits from me and after the end of 2 years they move the loan to some other lender then in that case they will not get the remaining 3 years benefits. The other lender also cannot claim the benefit for that particular loan. So, that is the one benefit that has happened. And second thing is that the government has also stipulated that the loan has to be a perfectly regular service account. If the customer starts defaulting then the balance benefit under the PMAY will not accrue to the customer. Therefore, this should also bring in a little bit of discipline in the customers as well.

Jigar Jani: This default is (+90)?

Suresh Iyer: I guess they have said default. So, we will have to see whether it is even SME accounts, or it is only NPA.

Moderator: We have next question from Pavan Kumar from Ratna Traya Capital.

Pavan Kumar: Investments on IT cost, you were saying operational cost would be around 40 crores per year out of which currently we are already incurring 15 crores. So, the incremental cost that will incur is 25 crores per year. Is that right?

Suresh Iyer: That is correct. Once it is implemented, the OPEX will go up by around 25 crores in a year. So, presently our total cost is around 200 crores for the entire year. So, if you look at our 20-25 crores then to that extent you can imagine that slightly it will go up. So, that 1 or 2 years when they immediately start kicking in at that time the cost to income ratio slightly have a higher value. It will definitely go up. Then once obviously it will get absorbed over a period.

Pavan Kumar: And how do you expect this whole system to benefit us in terms of, is it in terms of scaling or is it in terms of efficiency, how does this work?

Suresh Iyer: You are talking about the new IT transformation project where you are talking about?

Pavan Kumar: Yes.

Suresh Iyer: Obviously the present package as I mentioned is already about a decade old in our company and therefore there are a lot of packages and modules, additions and small things which have been substituted added and it is there. So, new package when we look at it, it will be a completely new LOS-LMS along with all the other added OEMs also will be there. It will have a treasury model; it will have a DMS model. So, everything will come in the same go. So, therefore, the system itself will become a little more flexible because right now it's a lot of patchwork a lot of management and monitoring and all those things issues are there. So, once this new package comes obviously it will help because it will be a seamless kind of a thing, and all the packages will be integrated upfront and will operate over the same UI/UX for the customer.

Pavan Kumar: Any guidance you can give on what is going to the cost to income this year and full of FY25 and from FY27 onwards because then this IT project is implemented, any numbers we have done on that?

Suresh Iyer: As I said the cost goes up, it will be about 25 crores and presently our total cost is around 200. So, about if today it is 17 then it should go about 18.7.

Pavan Kumar: And for this year are we saying the cost to income would be around 18 bps or is it going to be lesser because in the first half we have done better?

Management: This was basically on account of the expenses that we have incurred during this year this quarter because of the actuarial cost of some roughly 3 odd crores and some legal expenses and marketing expenses. So, this is one time cost, and we expect that the cost to income ratio should be in the nature of 16%-16.5% till the time the new IT system is there. Otherwise, it should be in the range of 17% to 18%

Suresh Iyer: That is when once it is implemented.

Moderator: We have next question from Chinmay Nema from Prescient Capital.

Chinmay Nema: Two questions from my side. Firstly, could you provide some color on the restructured book, so how much is the Stage-1, Stag 2, Stage-3, how much is the share of LAP, housing and how much is salaried and how much is self-employed? Some general qualitative sense around this. And secondly a while back I think you were talking about some builder tie-ups and is that something that we are still working on?

Suresh Iyer: In terms of our restructured book, across the board in terms of SMA-0, SMA-1 and SMA-2 as well as in NPA, we have seen an improvement in Q2 compared to Q1 in absolute value itself and obviously translated into percentage terms as well. Now I don't have the breakup in terms of the salaried and self-employed and all. And anyway, frankly speaking I mean it's been more than almost a year since the restructured book has completely come out of restructuring. So, right now, it is as good as the regular portfolio. But yes, we do have a slide in our presentation where we have given the breakup of the NPA. But in terms of SMA-0, 1 and 2, off-hand I don't have it. But I can tell you that across the board in terms of SMA-0, SMA-1 SMA-2 there has been an improvement in the restructured pool. As I had earlier mentioned in the first part of this con-call that we have also seen the difference or the improvement that has been witnessed in the restructured pool also is mainly in the SENP category.

Chinmay Nema: And on the builder tie-ups?

Suresh Iyer: On the builder tie-ups, yes, we are still focused. We are still pushing that although we have not had a great success in that. We have started as I said we have about 30 people in the marketing sales team, and we have started, we are getting some response. Q2 we have at least started some builder tie-ups and as of now it's a very small number only 20 kind of tie-ups that we have had with builders which are because we started off in the second quarter only and we expect that by end of the Q3 we should have more than 50 kind of APF tie-ups with builders. And these are as I said only in two states that we are mainly looking at to start with as a pilot because the first attempt which we did even last year we tried to make an attempt, but it was not very successful. So, we have done a little more concentrated and a little more focused. Only as a pilot project in two states where we have now started getting some success though it's a very small number. Going forward we will now improve further and then replicate it across all the geographies.

Moderator: Thank you so much. Ladies and gentlemen, we will take this as our last question for today. I would like to now hand the conference over to management for closing comments. Please go-ahead sir.

Suresh Iyer: Thank you. First of all, a very big thank you to all of you for joining this conference. I hope we have been able to answer but even otherwise if at all there are any queries, we are most welcome to get in touch. I also thank the Nidhesh and his team for organizing this call and to Chorus for managing this entire investor call. Thank you. Thank you everyone.

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