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CFHRO SE CS LODR 193/2023
July 26, 2023

ONLINE SUBMISSION

BSE Limited
Corporate Relationship Department
25th Floor, P J Towers
Dalal Street, Fort,
Mumbai – 400 001

BSE Scrip Code: 511196

Dear Sirs,

Sub: Transcript of Earnings Call for Q1FY24 Financial Results.
Ref.: Our letter CFHRO SE CS LODR 189/2023 dated July 20, 2023.

In continuation to our above referred letter, please find attached the Transcript of Analyst/ Investor conference call/earnings call held on, July 20, 2023, Thursday.

The aforesaid Transcript is also made available in the Company's website i.e., https://www.canfinhomes.com/pdf/Investec-CanFin-Jul20-2023.pdf

This intimation is submitted pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Kindly take the same on the record.

Thanking you,

Yours faithfully,
For Can Fin Homes Ltd.,

VEENA GANESH KAMATH
Digitally signed by VEENA GANESH KAMATH
Date: 2023.07.26 20:22:00 +05'30'

Veena G Kamath
DGM & Company Secretary

Encl: As above.

"Can Fin Homes Limited

Q1 FY '24 Earnings Conference Call"

July 20, 2023

MANAGEMENT: **MR. SURESH IYER – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. AJAY KUMAR SINGH – DEPUTY MANAGING DIRECTOR
MR. APURAV AGARWAL – CHIEF FINANCIAL OFFICER
MR. B. M. SUDHAKAR – BUSINESS HEAD
MR. PRASHANTH JOSHI – DEPUTY GENERAL MANAGER
CAN FIN HOMES LIMITED

MODERATOR: **MR. NIDHESH JAIN – INVESTEC CAPITAL SERVICES**

Moderator: Ladies and gentlemen, good day, and welcome to the Can Fin Homes Q1 FY '24 Earnings Conference Call hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on a touchtone phone. Please note that this conference is being recorded.

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

Nidhesh Jain: Thank you Dorwin. Good afternoon, everyone. Welcome to the Q1 FY '24 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. Ajay Kumar Singh, Deputy MD; Mr. Apurav Agarwal, CFO; Mr. B. M. Sudhakar, Business Head; and Mr. Parashant Joshi, DGM 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: Good afternoon, everyone, and thank you for joining the conference call today. I'll just give a brief of the highlights, a couple of points before we can open for the question-and-answer session. In terms of the disbursement and sanctions and disbursement, we have seen a good growth. In fact, it's been a little higher than what it was projected for it was done last year.

We've had a 14% growth in disbursements, which has resulted in an 18% Y-o-Y growth in the AUM. This is very much in line with the guidance that was given about 18% to 20% growth in AUM that we had projected. We had last time had a discussion in the last quarter that about the lag defect of the rate hikes on the asset side, which because of it, there was a slight upside available in terms of the NIM and spread.

So which is part of it has already been experienced during this quarter as a result of which there is sequentially, there is an improvement in spread by 16 basis points and NIM by 11 bps. The NPA also on the -- has slightly been on the higher side. There is an increase in the NPA by about INR30 crores, of which around INR18 crores is on account of the restructured book, which has come out.

We have about INR250 crores of restructured book, which had come out in the months of February and March wherein more than 3 months have relapsed. And out of that INR250 crores book, we have about INR18.5 crores book, which is about 8.67%, which is lower than the 10% that we were anticipating. However, it is there. The remaining INR12 crores increase in NPAs on account of the seasonal effect normally the Q1, there is a little bit of an increase.

During the quarter, we have also in terms of the financial accounts, we have not reversed the INR17 crores management overlay that we had carried in the last quarter of last year. Although the part of the restructured book has come out of the portfolio, we have not reversed that thing. And wherever and additionally, even in respect of the INR200 crores restructured book which has come out and wherein the NPA has also been witnessed.

We are still carrying the entire INR67 crores plus of provisioning that was done at the time of the restructuring as per the guidelines. So these are some of the brief points about the performance of the quarter. I think now we can open for queries.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahruk Adajania from Nuvama.

Mahruk Adajania: Hello, sir, congratulations. Sir, my first question is on margin. So obviously, like you had guided, margins have done very well. But what's the outlook from here on? Also the cost of funds that you show in the presentation, seemed to have declined quarter-on-quarter. So what's the outlook on cost. First of all, why did it decline quarter-on-quarter from 7.5% to 7.3% and what's the outlook from here on?

Suresh Iyer: Thank you, Mahruk. So as we had indicated in the last year, in the last fourth quarter of last year, that there was a 25 bps upside that was available while entire amount may not come into the books, but about 5 to 10 bps could have come into the books is what we had estimated. But we have as of now out of the INR18,000 crores, still about INR5,500 crores has already experienced that rate hike that we were talking about, which has already been passed on in the Q1 and because of this, we are seeing this, in fact, most of these cases were the ones where 85 bps impact was to be passed on. And so we have already seen that. Going forward, we still have another INR12,500 crores of book. But here, there is only 1 -- on the other component there is going to be one rate hike of 25 bps, which is to be passed on.

From net-net, we might still have the -- because of this INR12,500 crores, you might still have on the entire book or somewhere in the range about 3 to 5 bps, it could probably go further from here. That is in terms of the portfolio that has yet to experience the rate hike. The second point was at the cost of funds. So in the last quarter of last year, you would be aware that we had raised very high-cost NCDs at 8.35% because of which the cost was high.

During the year, obviously, it has been spread out over the quarter. Plus in terms of some of the banks, we've also experienced some reduction in the rate of interest. That is these are the 2 main reasons plus the CP that we had raised in between during the quarter for a short period, that has also helped us.

Net-net, if you see, the increase in the loan book has been to the tune of about INR1,000 crores, whereas in terms of the borrowing, we have not added much to the borrowing. It's just, it's been much lower than that. We have tried to utilize as much as results and our available funds are available from internal accruals. So these are the 2 reasons why on the cost side, we have been able to bring down or it's a little lower and whatever little I said on the asset side.

Mahruk Adajania: Got it. But from here on costs will stabilize or they'll move up?

Suresh Iyer: They will not be unlikely to move up because the rates at which we are still getting and we are still negotiating with bank for a slight improvement. Of course, we can't comment on how much of it will actually materialize, but we are trying to negotiate with the banks. And the rates have softened in terms of what we are doing. Like, for example, even the NCDs, what we are getting in the market is at a lower rate. This is how they [inaudible 0:07:31]. So going forward, we don't expect the rates to be on a very high side on the cost side.

Mahruk Adajania: And banks are willing to negotiate on repo rate or MCLR?

Suresh Iyer: Majority of our bank borrowings are willing to repo rate. So while the repo rate has not changed, what we are trying to talk to the banks is that if we can work on the spreads over the repo rate at which they are lending to us.

Mahruk Adajania: Got it. Got it. That's clear, sir. Sir, and what will be the -- so you will keep -- as you had mentioned earlier, the salary to non-salary mix would remain constant from here on? Or how does it...

Suresh Iyer: Well, there is no attempt actually changed it in any way. So if at all it happens, it will be by automatically whatever because of the selection of customers. But there is no attempt on a direction to make a change in that. We are comfortable with the present breakup.

Mahruk Adajania: Got it. But there is no cap on either, right? As in that depending on customer selection, either can grow that way?

Suresh Iyer: That is correct. But the comfort of our present customer base is mainly towards salaried. So that tells me that even the walk-in customers, have more publicity, everything that comes in as well as our channel with sources is also very comfortable with that segment. So it is likely to continue.

Mahruk Adajania: And sir, what's the progress on builder tie-up?

Suresh Iyer: We have targeted that. We have not yet started getting the results, but we have made quite a bit of items to start the APF. A lot of files in the branches are in the pipeline where the legal processing and taking everything is done, the benefits should start coming from the second quarter onwards. Because by the time we rolled out the policy for APF approvals and all those things, it was already half the quarter was gone. So the efforts branches have been putting, but we have not yet seen any results as yet.

Moderator: We have the next question from the line of Dhaval from DSP.

Dhaval: Congrats on good performance. I just had a couple of questions. First is on the restructured portfolio. If you could just give an update what is the standard restructured book at the end of the quarter. And I think if I heard it right, you said INR18.5 crores was the slippage from the restructured book into NPA and so if that is correct, what is the view on the rest of the portfolio? So that's the first question.

Suresh Iyer: Yes. Thanks, Dhaval. So the portfolio, as I clarified, we have totally about INR475 crores portfolio out of the total INR691 crores, which has come out of restructuring. However, there is some portfolio which has come out in April and May and June which have not even completed 3 months.

So that is not, I think, correct to consider that portfolio. So based on the portfolio of February and March, which has come out of restructuring and where more than 3 months have elapsed, and where an account has moved into NPA wherever 3 months has not relapsed. That portfolio is INR250 crores.

Out of that INR250 crores, 19.5% has become NPA, which is 8.67%. We had indicated in the last quarter that it could be up to 10%, there could be some slippage in the restructured book. So it has been lower than that. Going forward, obviously, the lessons from this are already there. So we are working on them. Going forward, at least we expect that this number could be lower also, but we would still like to retain the 10% limit on the conservative side.

Dhaval: Got it. And in terms of provisioning requirement through the year, I mean you still hold on to the credit cost guidance given at the end of last year or any thoughts of making additional buffer provision? I mean I'm saying the entire FY '24.

Suresh Iyer: See, actually, while giving the guidance and projections, we had already indicated that the NPA we will be considering for the working would be 0.7%, and we don't expect that to go beyond that. As regards to provisioning, you already know that we had made a provision, management overlay of about INR17 crores in Q4 of last year which we have entirely carried in this year as a management overlay without drawing up from that provisioning for the NPA, which has come out of the restructured book. So whatever has moved into NPA from the restructured book, we have made additional provision as per the ECL guideline.

So that INR17 crores space, plus whatever addition has come, we have been able to provide from the current year profit. So that's how we have not drawn from the original provisions. So technically, we have the additional provision of INR17 crores, which was the management overlay. We also have this entire INR67.69 crores, which was done at the time of restructuring. So although INR250 crores book has come out of restructuring and part of it has moved into NPA. We have made the additional provisioning for that additional INR19.5 crores, but the INR67.69 crores stays intact.

Dhaval: Very clear. Just last question is on the distribution. So the new branch expansion, what's the broad timeline like for the new branch addition for FY '24? If you could give some perspective on that please?

Suresh Iyer: Sure. We had indicated 15 branches is what we have planned for the year. Out of that, we have done, carried out the survey and everything for 12 and 3 are yet to be visited and verified. Out of the 12, 4 are in an advanced stage where we have negotiated, identified the property, negotiated the rent and interior work.

So during this quarter, we should be able to open four, four out of the 15, the remaining eight probably could be in the next quarter because we are yet to finalize the rent and everything, and then the interior work will take a little while. So probably eight more could be in the Q3. And the last three could be in the Q4.

Moderator: The next question is from the line of Aravind R from Sundaram Alternates.

Aravind R: I mean like the repricing has happened this quarter also, but the yields quarter-on-quarter hasn't actually moved up. Any reason, like what is like where it didn't happen? And I wanted to understand a little more on like the bank borrowings. Is it only predominantly Canara Bank borrowings? Or like is it a borrowing from multiple banks?

Suresh Iyer: Yes. Thanks, Aravind. So the first point regarding this, why the yield has not gone up. So one of the things is that we, our incremental lending rates are also at a lower rate. So obviously, we have a repricing and the incremental rates also, we give attractive risk to the customers to get the business which is in line with this. So that's why while some of it has been some incremental yield has come because of the repricing, some of it has been offset by the incremental business which has been done.

The second point which I'd like to make is that the INR30 crores additional NPA, which has come, okay? That has also had an impact in terms of the non-recognition of income. So that has also pulled out some of the income. So had that NPA remained static, that income would have been higher, and this would have, therefore, reflected in the higher NIM.

So these are the two reasons why the NIM -- I mean, sorry, the yield is not getting reflected entirely. Your second question was regarding the bank's exposure and whether the entire is from Canara Bank, No. In fact, the Canara Bank has a very small percentage of the total bank borrowings that we have. The total exposure of Canara for what is already given in the related party transaction details. So it's not a very large amount. In fact, the major two borrowers, major 2 banks from which we borrow are SBI and HDFC, which are almost 5 to 6x higher than what we borrow from Canara.

Moderator: The next question is from the line of Sumit Rathi from Centrum PMS.

Sumit Rathi: One, I wanted to ask on the industry level, how are we seeing the growth going forward basis, like given a lot of competition is coming up and looking towards housing finance and affordable housing asset?

Suresh Iyer: The competition, obviously, it's constant. It has always been there and the face of the competition sometimes changes. But in terms of the market, if you ask, we are witnessing a little bit of uptick in the supply. On the supply side, at least in the medium to high level property ticket sizes. That is in the 2 BHK, 3 BHK and 4 BHK kind of properties. We are seeing some project launches coming in.

So that's a good sign. And we are quite confident now that the demand is also there. The rates remaining static or remaining constant stable. The people have also come back and buying decisions are happening today in the market. So that's also good. And a couple of States are also looking at stamp duty and everything. So that should also push up something in terms of the demand.

Sumit Rathi: Okay. So you feel enough levers for the demand is there for.

Suresh Iyer: Yes. We are confident that the demand will continue.

Sumit Rathi: I joined the call a few minutes late. So probably you would have answered it already, but I just wanted to check, what was the reason for the sequential drop in disbursement and a new approval of. Is there any slowdown? Or is it just a quarterly phenomenon?

Suresh Iyer: No, no, no. Actually, Q4 or rather the second half of the year is always seasonally normally 55% of the business happens in the second half. First half is a little subdued and April month particularly is always like that. It's an industry-wide phenomenon. And I think that's the only reason. There's no other reason for that. But compared to the previous year, June, you would see that there's a 14% growth in terms of the disbursement and 18% in terms of sanctions.

Moderator: The next question is from the line of Umang Shah from Kotak Mutual Fund.

Umang Shah: Yes, sure. Sorry. So I'll just repeat. On the provisioning front, I just wanted to understand. So let's say, we are carrying roughly about 25 basis points of provision gross management overlay and restructured loans. Now let's say, these restructured loans basically either combined to standard or NPLs through the course of the year, then basically, how should we treat this 25 basis points of provision?

Do we intend to carry it as the provision over and above the provisions that we have? And the second is on our Stage 3 provisions, right? I mean although during the COVID period, we had kind of increased the Stage 3 provisions but it still remains significantly higher compared to what we used to have during the pre COVID period. So on a steady-state basis, how should we look at this whole provisioning dynamics?

Suresh Iyer: See, post this Ind AS, actually, we are supposed to carry the provision as per the ECL guidelines only. And there is only one small scope wherein as a management overlay, we can carry something more than the ECL. As compared to the Ind AS, where in we could have carried extra provisions. So we are already carrying as per the Ind AS provision. And as a management overlay, we ignore until this is possible. So technically speaking, once the entire book of restructured book comes out at NPA there should not be any reason to carry the management overlay.

However, we will -- we would like to -- if possible, we would like to be a little conservative going forward, we'll see how it can be done and if there is some justification and auditors also will have to be conservative. But as a demand because of the restructured book, we are able to carry management overlay. But otherwise, it has to be as per the ECL. Although, I mean, also as a management, we would like to carry a little more.

Umang Shah: Understood. And if you could just help me, what is the outstanding restructure book now after INR475 crores you mentioned it has already come out of restructuring, right?

Suresh Iyer: Yes. So we have INR216.62 crores yet to come out of restructuring in the [inaudible 0:21:26] INR475 crores has come out of restructuring, INR216 is yet to come out.

Umang Shah: Okay. And that will come out of restructuring in the second quarter or post that?

Suresh Iyer: No, we have up to November, i.e. August, September, October and November, we have some portfolio coming out. Although a majority of it actually comes out in August, almost 50% of it comes out in August.

Umang Shah: Understood. My second question is on liabilities. So once again, this quarter, we have seen a little bit uptick in our CP borrowings. Just want to understand what's the product of the thought process? Now I understand that in the past, we have run much higher lower tenure CP borrowing book and which had come down by the previous quarter.

But as a management strategy, I mean, do we intend to kind of play tactically as far as this liability book is concerned? Or we would like to cap the proportion of CPs at a particular level?

Apurav Agarwal: Hi. This is Apurav. So how we look at CP is as a cost leverage tool, not as a liquidity tool. So whenever there is a market opportunity wherein we can borrow from the market at a lower rate and not compromising on the ALM, then at that moment of time, we'll try to win CPs to leverage our cost. So CP as a cost management tool is just the thing. So if we look at the number of March, it was INR1,350 crores, and in June, it was INR2,000 crores. So this is always back up against unsanctioned -- sorry, on a well sanction limit from the bank.

Suresh Iyer: But in principle, if you are saying whether we are looking at CP to increase the CP percentage, actually, no. In fact, this year, we have not even increased the limit which the Board has approved for the borrowing from CP. So the overall limit, which has already got the approval the year before, that continues. We have not gone for any enhancement that they are seeing. And it's only an opportunity where we have drawn a little from the CP, but not as a borrowing requirements.

Umang Shah: Understood. And just one last question is on opex. So 15 new branches will come in over the course of the year. And I believe in the past, you have also alluded to making some investments towards upgrading our technology systems, so on and so forth. So should we assume that the cost-to-income ratio where we are currently will see an uptick in the coming quarters?

Suresh Iyer: Absolutely. We have been mentioning that this year we can expect somewhere last year, we were 16.93% or something. We can expect somewhere in the higher 17% or closer to 18% cost-to-income ratio, we can expect although with the staggering of the branch expansion and the IT expenses, probably we don't know where we'll end, but you can expect it to be somewhere in the 17.5% to 18%.

Moderator: The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: My question was pertaining to the repricing. So by when would the entire book get repriced?

Suresh Iyer: The entire book would actually would come up for repricing up to December 2023. We have every month portfolio because we had last done it in the month of November 2022. So that will, the last book would come up in December where the one trial will be passed on.

Shreepal Doshi: Got it. And given that you said that there is not a material increase in cost that we are anticipating. So if that is stable, then what is the sense on margin expansion? You said 3 to 5 basis points, but if it is still December, then what, how much can it still increase?

Suresh Iyer: No. So we have factored in the timing aspect also. That is why we said up to 3 to 5 bps on the upside that we are having. And I guess, the 2.5% spread and 3.5 NIMs is what would we can continue and maintain.

Shreepal Doshi: Okay. Got it. Sir, there was just one doubt pertaining to the yields and margin numbers. So there's Slide number 10, which gives us a comparison, and then there is Slide 13, which again gives us comparison. So what is the difference between the two in the NIMs in the yield and cost of funds?

Suresh Iyer: So is that Slide 10 and Slide number?

Shreepal Doshi: 13.

Suresh Iyer: No. In fact, Slide number 13 is more of a for five -- over five quarters. And for the quarter, specific quarter, at the end of each quarter for the quarter. The incremental cost and this thing is Slide number 13 and as at the end for the quarter it's just a subset of it. We are going for 5 quarters in Slide number 13, and this is only for a quarter -- 2 quarters and quarter-on-quarter that we have given in the other two slides.

Shreepal Doshi: But the numbers are different. So for example, for June quarter, for March '23, we have given 9.87% as a yield. But if you look at in Slide 13, it is 8.99%. So therefore, the disconnect.

Suresh Iyer: I think I just haven't checked, I think that is -- yes, I think that is one.

Shreepal Doshi: Okay. Okay. Got it, sir. And sir, the last part was like with respect to IT infra upgradation, what is the cost that we are anticipating that we will incur for the same? Because even in the annual report, there's been a lot of emphasis on upgrading the entire infra and also having 10% coming to digital channels. So what is the opex that we are anticipating?

Suresh Iyer: See, the Board has approved a budget of INR250 crores, and it includes INR60 crores for capex and the remaining INR180 crores, INR190 crores for opex. Spread over 7 years because this project that we are -- the RFP talks about a 7-year project for this. Now the present position of the project is that we have already -- we have received 2 bids from 2 SIs and the evaluation process is going on.

Now part of the resource is also one of the -- that is a manpower resource that they are going to provide that the SI is going to provide is a critical function, which is also going to be part of the pricing. So once the SI is finalized, then we'll know an exact picture as to how many resources they are likely to bring and accordingly to the price.

But it may not be a very large difference. To cut the budgeting, INR60 crores is the capex, which will be INR30 crores and INR30 crores in over this year and the year and the next year. And the opex will not start in this year because it will start from the year thereafter, after the 1 year once the 1-year AMC start kicks in.

Shreepal Doshi: Got it, sir. Got it. Sir, just one last question pertaining to the asset quality. So as you said, that only INR216 crores is now left for coming out of the restructuring bucket. But I wanted to understand what is the 30 to 90 bucket in percentage term for 1Q and versus what it was in 4Q FY '23?

Suresh Iyer: You're talking about the which bucket, sorry.

Shreepal Doshi: 30 to 90 bucket.

Suresh Iyer: 30 to 90 bucket. Just I'll come back to you. We'll just do the math and come back to you. Just give us 5 minutes. Sorry, just to comment. You are talking about the restructured book or the entire book.

Shreepal Doshi: Entire book.

Suresh Iyer: The entire book, just a second. On the entire book, our Stage 1 is around INR30,300 crores. Stage 2, which is SMA-1 and SMA-2 is around INR1,260 crores and in fact, the restructured book -- entire restructured book of INR672 crores, we have considered in the -- excluding the INR19.5 crores NPA is entirely considered under Stage 2. So INR1,260 crores plus INR672 crores is considered under Stage 2 for the purpose of ECL calculation and the NPA or Stage 3 is INR205 crores.

Shreepal Doshi: Got it, sir, got it. And for 4Q, I'll take it from the annual reports.

Moderator: The next question is from the line of Devansh Nigotia from SIMPL.

Devansh Nigotia: Sir, over the last 2, 3 years, you see that the DSA dependence will go significantly high. I think 30%, 35% to 70% here. So I mean, so the management change, how you're looking at it? And incrementally, where do you want the DSA dependence should settle?

Suresh Iyer: Well, you are right. In fact, it is more than 70%, as you mentioned, it is actually closer to 80% is the DSA dependence of the last year. And we would like to -- while we would obviously continue with the DSA as a channel because it's a very important channel for sourcing but we have also initiated efforts to source direct business for which one of the earlier questions is also there as regards to developers for APF projects.

So we at least anticipate in the next 2 to 3 years to bring down this 80% to around 60%. So the balance should come from direct business, which is the APF plus as well as customer walk-ins. And once this IT project is implemented, we'll also be able to push for the digital sourcing, which also will start contributing once the project is implemented.

Devansh Nigotia: And what prevents this DSAs [inaudible 0:31:35] to a customer, not to the bank, but to us considering that the ratio is also as a salary build. So how does that happen?

Suresh Iyer: Well, the DSAs have first of all, they are also -- their comfort also comes as to how much they are able to understand and give a commitment to the customer and how much the service we are able to give. So one of the important factors is that because the DSAs have been with us for a very long time, they are also very comfortable with the kind of policy and the sanctioning and everything and what loans we are able to give.

So they're also able to kind of communicate to the customer as to whether it is possible or not. So that is one of the critical things that we are able to do, whereas sometimes other lenders may not be able to give that kind of comfort or they may not be able to honor the kind of commitment the DSAs give.

Devansh Nigotia: But I mean it's slightly interest -- highly interested in it. I mean, customer satisfaction or some soft points if you can elaborate on with which maybe other banks cannot be given probably they'll provide lower interest rates. So I'm still not...

Suresh Iyer: Rate of interest is an important factor, but service, TAT and, of course, the ability to honor the commitment because we have decentralized sanctioning power. So our branch managers are able to commit and sanction the loans. That is one of the things. Unlike other many other players who have centralized setup and a verticalized approach where sanctioning is -- so the people who are sourcing the loans are not having any see on what is the amount, the quantum, the rate of interest, the terms of sanction and everything, they're not able to commit or able to communicate to the customer. So that comfort is one of the major factors we believe because of which the comfort is there for DSA to bring the loan swap.

Devansh Nigotia: And in terms of branch expansion, are there any location strategy that you have or with the regions that you are targeting?

Suresh Iyer: Out of 15 branches, we plan to open 4 in the South, 9 in the West plus North put together and 2 in the East.

Devansh Nigotia: Sir, I meant more in terms of are they in the center of the city or outskirts or maybe Tier 2, Tier 3 towns.

Suresh Iyer: No. We have quite a bit of urban towns, which have come up, which are doing well and where we feel we can have a good presence. So we don't have any presence. None of these 15 branches are actually in the metro towns or in the large or the mini metros. All these 15 centres that we are looking at are the upcoming towns. Most of them are urban towns only.

Devansh Nigotia: Okay. Just last question. The NCD that you have raised of INR4,500 crores, what is the interest rate on that.

Suresh Iyer: We've not raised -- you're talking about the -- we have taken an approval in the AGM from the shareholders to raise additional. We have not raised anything during the year. This is just our provision to raise but as and when the requirement comes, we will be raising it. And this is more to meet the regulatory requirement that 25% of the long-term borrowing has to come by way of market borrowings. So to meet that, we have taken the approval from the shareholders. This quarter, we have not raised any NCDs.

Devansh Nigotia: Okay. And currently, we are seeing market rates below 8% for NCDs.

Suresh Iyer: Correct. For the tenure that we are seeing, we are getting costs at below 8%.

Moderator: The next question is from the line of Onkar Ghugardare from Shree Investments.

Onkar Ghugardare: Just a small question on the finance cost, which has increased significantly. Any particular reason on that front?

Apurav Agarwal: So finance costs quarter-on-quarter has not increased much.

Onkar Ghugardare: I'm talking about year-on-year.

Apurav Agarwal: Yes, year-on-year, it could increase because the underlying repo rate market everything is 200 up like 250 basis points repo rate increase on which major bank borrowings are based on. And also, like capital markets from last year, still like right now are a little pricier consider the repo rate increase.

Suresh Iyer: If you recollect, most of the entire repo rate increase started from post June 2022. So that's where this whole thing is impacted.

Onkar Ghugardare: So what would be the likely scenario in the upcoming quarters for the finance cost?

Suresh Iyer: See, in terms of the cost, overall cost, it is kind of going to remain stable because we may obviously though we will be trying to bring down the rates, borrowing costs from the banks and everything. But you can see that it will remain stable because now there are no further increases expected. At least, I mean, we hope that there are no further rate hikes.

Onkar Ghugardare: Okay. As of now, you see that it would remain stable at this point.

Suresh Iyer: Kind of. Because in this quarter, of course, there has been no rate hike or anything. So therefore, whatever has been experienced is the opening cost which was there on 31st of March and almost on the entire liability side, we had experienced a rate hike impact in the last year itself.

Onkar Ghugardare: And as far as the year-end, say, next 2, 3 years goes, you stay with your guidance of 18% to 20% disbursement and AUM growth, right?

Suresh Iyer: We are quite hopeful that the markets will stay up like this and demand will continue, and we see a long runway for this for the housing finance industry. So definitely, we are hopeful that we should be able to maintain that kind of a growth unless there is something very, very untoward which we hope not.

Onkar Ghugardare: Okay. Another small thing is on the fundraising, which you had -- you wanted to do. Any timeline on that front? Equity fund pricing.

Suresh Iyer: No, it is, again, more of an enabling provision. As of now, we have ROA of around 2.1% in fact, 2.19%. So even assuming 2% and a gearing of around 8x, we should be about 18% kind of a growth should be manageable from internal accruals. Of course, if the rate picks up and there's a good opportunity, then we will look at it. So as of now, we have not got any timeline, but it's more of an enabling provision.

Onkar Ghugardare: So you are comfortable with the gearing of around 8%, right?

Suresh Iyer: Kind of, yes. Right now, up to 8%, I think I believe there is not much of an issue. We should be comfortable.

Moderator: The next question is from the line of Ratik Gupta from Guardian Asset Management.

Ratik Gupta: The PCR ratio seems to be declining for this quarter. So what sort of future PCR we looking at?

Suresh Iyer: Thank you. This may see, as I explained earlier to one of the other queries also, that the requirement for provisioning is purely be as per the ECL guidelines now. So whatever provision of the PCR of 56% that we have shown is purely based on the provision maintained as per the ECL guidelines. However, it does not include the INR17 crores management overlay that we are carrying and the additional INR67 crores that we are carrying for the restructured book. So if we include that, definitely, it will be higher.

And as indicated earlier also during this con call, that if possible, and if the auditors are also comfortable, we as management would definitely like to carry a little higher than the ECL provisions.

Ratik Gupta: And sir, previously, we used to receive an outlook of what the loan book growth can be in the coming -- for this year and for like next year. So what sort of growth are you looking right now?

Suresh Iyer: We have indicated that we'll be looking at around 18% to 20% AUM growth is what we are projecting.

Ratik Gupta: Okay. And based on disbursement, I am I right to say that 3% of the book gets closed every quarter?

Suresh Iyer: That is right. You're right, 3% per quarter, you said, right?

Ratik Gupta: Yes.

Suresh Iyer: Yes. That is fine. That is correct.

Moderator: The next question is from the line of Prakriti Banka from HSBC Mutual Fund.

Prakriti Banka: Just two questions and I joined a little late. So I missed it in case you spoke about it earlier. So the yield improvement in this quarter has been much more than what we have spoken off of how about part of our bookings going to get repriced by 5 bps. So we might have about 14 bps. So what is the yield trajectory from here? And the second question is on the average ticket size. The incremental tickets that you mentioned in home loans is INR22 lakhs. Is that correct?

Suresh Iyer: Yes, that is correct. So first point on answering to your first question...

Prakriti Banka: On yield.

Suresh Iyer: On your first question, the yield that we are talking about, we have got a sequential growth of 16 bps in spread and 11 bps in NIM. We had, if you recollect, indicated that the restructured book is going to come out INR18,000 crores was there at the beginning of the book, which was yet to experience the part of the rate hike of which we have already experienced it in about INR5,500 crores approximately of about 85 bps.

That is the reason why this has gone up. And this has also been supported by the fact that when we began the year, we had expected the cost to remain stable. But on the cost side also, we have been able to slightly negotiate with a couple of banks and have been able to bring down the borrowing cost.

Going forward, we still have about INR12,500 crores of book, which is yet to experience some of it but large part of it is yet to experience a lower spread of 35 bps only. So overall, we expect another about 3 to 5 bps, which is possible going from here where we could see the benefit coming from the rate hike, which is yet to be passed on.

Prakriti Banka: Okay. Got it. And so on my calculated number, I'm getting a yield increase of almost of over 30 bps, but on your numbers, it's not that bad, right? You're still at about 15, 16 bps only in this quarter?

Suresh Iyer: I'm sorry, I didn't get you. 30 bps of what?

Prakriti Banka: No. So the quarter-on-quarter basis expansion in yield, would you come up to what quantum?

Suresh Iyer: No, the yield is around 9.8% is what is the yield on the portfolio. I think that also we answered earlier. That 9.87%, which was there. There are 2 reasons why that is not getting reflected in the yield going up. One is because while the yield has come on the INR5,500 crores of book, we've also been on incremental lending, we've also had some offers and the incremental lending rate is also on specially on the lower side. That is part one.

And part two, which is that we are increasing the NPA of about INR30 crores. And therefore, there is a nonrecognition of income on that additional INR30 crores, which is also one of the reasons why the yield has slightly been pulled down. And coming to your answer, sorry, we missed out on that INR22 lakhs, you are correct.

The average ticket price for the quarter in home loans is INR22 lakhs as compared to INR24 lakhs of last year but that is more because some large value things were stopped in the city of Bangalore and all because the -- and Karnataka because of the change in the sub registrar offices and digitization that was going on in some of the locations.

So some high-value loans, we have had impacted in the disbursement also. So another INR80 crores to INR100 crores of disbursement also has probably been impacted because the sub registrar offices were not taking the LSR and all those things are getting impacted.

Prakriti Banka: Okay. Otherwise, the idea of moving, increasing your average ticket size that continues to stay.

Suresh Iyer: That continues. But again, as I think you might have missed this answer also, we did mention in the beginning that this APF that we are talking about in the builder tie-ups that was incidentally the first question that where we said that we have that we intend to target, we have started the efforts. But by the time we rolled out the policy and everything, it was almost half the quarter gone. So the impact is yet to be witness. Once that comes in, is when we will start seeing the business coming from the APF and the projects and the INR25 crores to INR1 crores kind of a segment.

Moderator: The next question is from the line of Harshvardhan Agrawal from Bandhan Asset Management.

Harshvardhan Agrawal: Just wanted to understand the Stage 2 numbers that you mentioned. Because if I were to look at some transcripts of previous years, we were hovering at around INR1,000 crores, maybe INR1,100 crores of Stage 2 number. And the numbers that you mentioned now is at somewhere around INR1,900 crores. So there's a sharp increase in stage numbers in the last 1 year. So how should one look at it? Is there some [inaudible 0:45:46] spreads that we're looking at?

Suresh Iyer: No, no, I'll just clarify. Our Stage 2 numbers are around INR1,260 crores only. I said that additionally, the entire restructured book, we are considering under Stage 2, although they are under Stage 1 or regular or they have not even come out of the restructuring. We have taken the entire thing and making a higher provision. For the ECL purpose, the entire restructured book has been pulled along with the Stage 2 assets for the purpose of provisioning, not that they are in Stage 2.

Harshvardhan Agrawal: I agree, sir. But even in the previous con call, obviously, you had the same policy. So just earlier when you were the INR1,000 crores a rough number, that included the restructuring book. And even today, including the restructuring book, it's around INR2,000 crores. So I just wanted to understand.

Suresh Iyer: I'll just clarify even in the month of March, what Stage 2 we had, that is SMA-1 and SMA-2 was almost in the same line. In fact, there is a little INR100 crores, which is an increase. So probably, the INR1,100 crores that we're talking about might be the same because we have, overall, our delinquent portfolio has come down by about 150 bps, INR150 crores but Stage 1, Stage 2 has slightly increased by INR100 crores, which is what is coming up at INR1,100 crores to INR1,200 crores.

Moderator: The next question is from the line of Shweta Daptardar from Elara Capital.

Shweta Daptardar: Congratulations on good set of numbers. A couple of questions. The first one being, I just wanted to understand the math behind setting aside the seasonality on the disbursement, repayments have remained steady quarter-on-quarter in light of 18% growth, how do you see this mark panning out going ahead?

Suresh Iyer: Sorry, can you just can you just repeat it because you're slightly...

Shweta Daptardar: So repayments have remained steady on a substantial basis. Disbursements you said there was slightly due to seasonality, there was quite sluggishness you're guiding 18% growth. So how do you see the math panning out in terms of repayments versus disbursements in order to provide that 18% plus kind of growth ahead?

Suresh Iyer: Well, if the disbursement -- you are right, the disbursement, which is about 14% should pick up in the coming quarters. So with that, we should be able to probably, we are now at the 18%, it could slightly go up. But again, as we move forward, the pressure on the prepayments could also come up. So I think it is fair to keep the targeted 18% to 20% only because in this quarter, we have not actually seen any pressure on prepayments.

Hopefully, that remains. This might pick up. But normally, in the second half, the prepayment pressure also starts coming in, when the competition also starts offering very attractive rates and special schemes for BT and all those kind of things.

Shweta Daptardar: And secondly, you mentioned you're comfortable at 8x kind of leverage. But then if I just extrapolate going by a risk-weighted asset number sitting from annual report is it that it becomes a moment capital raising in FY '25?

Suresh Iyer: Well, as I said, 8x is gearing and 2% ROA, 18% is there. But if you consistently keep doing it, probably we may require, yes. Normally, the thing only comes in the Q1 when -- but once the AGM happens and the accounts are approved, then in that case, normally, the borrowing does go up. So that time, it's normally not much of an issue thereafter.

Shweta Daptardar: Sir, just 2 bookkeeping sort of questions one is, if you could provide the quantum of borrowings for the quarter gone by. And also, what is the RAK or RAK rate?

Suresh Iyer: Sorry, what was the second question? First was the borrowing, second is...

Shweta Daptardar: What is the interest rate, RAK rate?

Apurav Agarwal: So during the quarter, we have experienced a loan book growth of roughly INR950 crores. And we have like on the bank borrowing side, we have experienced a net incremental borrowing of around INR700 crores.

Suresh Iyer: And our lending rates start from 9.6% onwards.

Moderator: The next question is from the line of Shubhranshu Mishra from PhilipCapital.

Shubhranshu Mishra: Two questions. The first one is if we can decompose the growth guidance that we are giving, 18% to 20% would have some ticket size inflation rent, which would be around 4%, 5%, some amount of efficiency in net branches will be maturing. So what is the pure growth number pure new business number in that 18% to 20% growth that we're guiding for.

That's the first. Second is, how do we split our opex into cost of collections and cost of acquisitions. And if we can further split the cost of acquisitions in our South territory, which is our home territory and non-South territory where we want to expand our book.

Suresh Iyer: The first question, Shubhranshu, I'll just answer your first question. The calculation of 18% to 20% is based on a 20% growth in the disbursement last year, we had done about INR9,000 crores. So around INR10,500 crores or thereabout should get us considering the present repayment ratios and all should be somewhere around INR6,500 crores of net accretion to the book. That will be around 18% to 20%. So that's the basic math. Now to the question as to where this 20% of growth will come from.

So we have a branch expansion, about 15 branches planned for the year. That should bring us, but that should not be a very large number because we have it staggered over the period. And the first the branches don't contribute very large numbers but the majority of it should come one from the increase in ticket size because of the normal inflationary increase that happened in the cost of construction and all which should be around 3% to 4%.

And additionally, we are looking at an increase in terms of the ticket size, which should also help us in bringing this because we are targeting this approved project APF and that should help us slightly increase our ticket size once we move into the INR25 crores to INR1 crores segment, which is predominantly the segment where this APF happens. So this is the main reason.

Shubhranshu Mishra: Right. So frankly 18% to 20%, roughly, do you think 7% to 8% should come out of ticket size impact, right?

Suresh Iyer: Kind of, yes.

Shubhranshu Mishra: And what would come out of branch efficiency.

Suresh Iyer: Obviously, we expect another 10% of all branches to do definitely more than what they're doing. So at least 10% to 15% in branches is what we have increased for the budget for them. And the 5% should come from the ticket size and from the branch expansion.

Shubhranshu Mishra: Okay. And the opex part that I had asked.

Suresh Iyer: I see the major. We have 80% of the -- answer to the second part of your cost part of it as to what is the acquisition cost. So we have 80% of the loans being sourced through the DSA channel where we are paying a grade structure and about 0.43 it is what is the payout, which is effective payout that is going on to the DSA channel on that 80% of the loans which are being sourced to the DSA channel.

That's the only other acquisition costs because we don't have any other channel we will turn much into this. But a little bit of business development expenses could come this year, but because of this APF penetration that we are looking at.

Shubhranshu Mishra: Right. And cost of collection?

Suresh Iyer: Cost of collection, actually, there is no additional cost of collection except for whatever because it's our own staff that is doing the collections also. We don't have a dedicated separate team or anything which is doing it. So in terms of that, I wouldn't say there is much of it. And I think that I can attribute separately to it.

Shubhranshu Mishra: Right, right. And if I could just squeeze in one data keeping question. What is the total borrowing number of this quarter?

Apurav Agarwal: INR29,700.

Moderator: We have the next question from the line of Pavan Kumar from RatnaTraya.

Pavan Kumar: What could be the BT out for the quarter? And what should be the normalized BT out ratio for the year?

Suresh Iyer: The BT out during the quarter is not a very high number. Our normal prepayments is about INR100 to between INR100 crores, INR125 crores per month. That's about INR400 crores, I think, max, we would have -- not even that much about INR350 crores is what we would have had a prepayment of which BT out would probably about INR100 crores, INR125 crores, not more than that.

Pavan Kumar: INR100 crores, INR125 crores per month.

Suresh Iyer: For the quarter.

Pavan Kumar: For the quarter Okay. And sir, another thing on the restructured book, which has come out of INR470-odd crores that you are talking about, so how do we actually define that they have come out in the sense, is it like the payment due has already started and are there any furthermore GNPAs expected from the same INR470 crores pool going forward? Because my understanding is there would be maybe I mean how many have actually paid 1 or more instalments.

Suresh Iyer: So how we consider them there to be out of restructuring is that whenever the restructuring was given, there was a fixed tenure for which the restructuring was given. And once that we had comes out, the EMI demand or rather demand starts that is when we say there is a lot of restructuring, okay? And as of now, while INR475 crores has come out of restructuring, as I had earlier mentioned about INR250 crores is the portfolio wherein more than 3 EMIs have become due. And from that, if you look at it, only about INR19.5 crores has turned into NPA. So the balance portfolio is where at least customers are paying something.

That's the thing. And now to the remaining part, whether there will be some more NPAs that could come out of INR475 crores yes, because INR475 crores minus INR250, around INR225 crores are such cases where even 3 EMIs have not become due. So some of the customers, if they don't continue to pay and then they could move into NPA, plus there is a INR216 crores of portfolio, which is yet to come out of restructuring. Overall, we have earlier given a guidance that up to 10% could go into default, wherein we may have to carry a provision. Although the INR250 crores, this is only 19.5crores, which is 8.67%.

Pavan Kumar: Okay. But this INR250 crores since they have not paid their 3 EMIs. I mean, then it should technically be a GNPA.

Suresh Iyer: We have classified INR19.5 crores as a gross NPA. And for the rest of the book out of 250, there have been cases where people have paid out of it. So there have been, say, people absolutely regular and to the SMA-1, or 2 or SMA-0.

Pavan Kumar: Okay. And apart from this INR250 crores out of the INR470 crores, you are saying they are paying very regularly.

Suresh Iyer: There are cases which are paying also I didn't say all of them are paying. As I said, INR475 crores has come out of a restructured book, of which INR250 crores is where more than 3 EMIIs are due and 19.5 crores has become NPA.

No, no. The NPA is not INR250 crores. I'm sure portfolio which has crossed 3 or more EMIs are due but only 19.5% is such where the customers have not paid 3 EMIs and other full NPA. The remaining ones have paid the EMIs. Part of it or full.

Pavan Kumar: Okay. But if 3 EMIs are crossed, then it is 90 days plus 2, right?

Suresh Iyer: Yes, that's what -- so they have been more than NPA. That's why INR19.5 crores is such where they have not paid. So if they have paid, say, one out of the two MIs they would be in SMA-0. If they have paid two out of three, then also there have been SMA-0. So that's how the classification I'm saying only INR19.5 crores are there, they're more than 90 days EMI, more than three or more EMIs have not been received, and that is the portfolio which is classified as NPA out of the INR250 crores. The remaining INR231 crores is that where they are paying.

Apurav Agarwal: If you're taking it that. So INR250 crores worth is the portfolio who has become regular out of the restructured book. It is not that they are not paying.

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

Anusha Raheja: So what will be your full year credit cost guidance?

Suresh Iyer: No credit cost, we are talking about 10 bps only. We have so far not seen anything. We may have to carry some provision for the NPA, but in terms of absolute write-off and credit cost in that sense where we will not be able to recover, that will be not more than 10 bps.

Anusha Raheja: Is it possible that the total hit on the P&L will be closer to around 10 bps, that will include on the restructured provisioning as well, right?

Suresh Iyer: No, no. You're talking about credit cost in the time of losses or you're talking about NPA provision also.

Anusha Raheja: NPA provisioning.

Suresh Iyer: We are saying 0.7% up to 0.7% could be the portfolio, which could be under NPA. Consider including the portfolio, which will come out of the restructuring. So 0.7% is the portfolio which will be NPA the actual provisioning of that would be 0.46% is the ECL guidelines that we are doing 0.5% you can say. So that would be the provisioning that we will have to carry on that book. And but the actual credit cost in terms of the write-offs in terms of the amount, we will not be able to recover from the customer, it will not be more than 10 bps.

Anusha Raheja: Okay. Okay. And I just actually move down to your builder loan strategy, if you can just elaborate a little bit more on that?

Suresh Iyer: So this we are doing with a view to improve our direct sourcing, we would like to. We have identified APF that is the project file concept for tie-up with builders for sourcing of direct business. There, we have already initiated efforts and we have already marketing with the builders for approaching the project. Thus far, we have not received any approvals because we have started it only in the last 1.5 months or 2. So we are expecting that to happen. And once that happened, mainly, we are targeting the segment of 2 BHK, 3 BHK properties in the geographies that we operate in smaller projects, not the very, very large projects because the smaller projects are easier to handle.

But basically, this will be the category B and category C developers. So with the cat B, cat C of developers, you would like to tie up for the project sizes where the unit costs are in the INR25 lakh to INR1 crores segment. And in that, we would like to tie up with them for and give the legal clearances so that we can do direct sourcing of business from there.

Anusha Raheja: Okay. And what is the average ticket size of the home loans currently?

Suresh Iyer: For home loans, it is INR22 lakhs in this quarter and INR8 lakhs for the NHL.

Anusha Raheja: Okay. And incrementally, you're saying that closer to around 5% of growth in the AUM can come from increase in the ticket size, that will -- this 22 can become 25 odd right I mean.

Suresh Iyer: We are projecting it to slightly be in the INR25 lakh to INR27 lakh range.

Anusha Raheja: INR27 lakhs to INR28 lakhs.

Suresh Iyer: INR25 lakh to INR27 lakh range because we are right now at INR22 lakh. It has to interrupt last year also, we are around INR24 lakh. So actually, once we start doing this APF project, we expect an average ticket size of around INR40 lakhs in the -- from the APF projects because they -- as I said, they would be the INR25 lakh to INR1 crores segment.

So an average ticket price around INR40 lakhs is what we can expect from there. This would help even if we get 10% business from this segment in the year, we should be able to increase it from the present INR20 lakhs to INR24 lakhs to around INR27 lakhs.

Anusha Raheja: Okay. But then upwards of INR30 lakhs, if you will see, I think even banks are quite active in that segment, right? So when you say that you will be having 18% to 20% sort of growth over a longer period of time and incremental, some part of the growth is also coming from the higher ticket size. So how do we see that? Because that will also call for shrinking the margins as well, right?

Suresh Iyer: There could be some impact on margin. But basically, as I said, we are looking at the Cat B, Cat C developers and the smaller projects where the project size is. So there, we should be able to at least make some inroads and get some business.

Anusha Raheja: Okay. And what could be -- how can we look at this as build sourcing sort of loans over the next -- over the period of next, say, 1 or 2 years what could be its share in the total on the loan book pie?

Suresh Iyer: With APF that we are talking about, we expect going forward to contribute somewhere around 20% of the business. Because right now, as we mentioned, 80% of the business is sold through DSA. So we expect that to come down to around 60% in the next 2 to 3 years and we would like to bring about the APF would contribute about 20%. Our direct business, another 10% and about 10% could come from the digital sourcing that we would be able to start once our systems are in place.

Anusha Raheja: And how much could be the benefit in this which is versus how much you pay out to DSA currently?

Suresh Iyer: See, we are paying out up to 0.43, that is 43 bps to the for the DSAs for business sources by them. So that obviously will if we get the direct business, that will be a saving which we can use to pass on the customers in terms of this thing.

Anusha Raheja: So I mean you broadly, we can expect the return ratios in terms of ROA and ROE to maintain at the current levels despite the fact that there will be increase in the ticket size. So that's a fair assumption.

Suresh Iyer: That is a fair assumption, 2.1% ROA and around 17% to 18% ROE.

Moderator: We will take that as a last question for today. I would now like to hand the conference over to Mr. Suresh Iyer for closing comments. Over to you, sir.

Suresh Iyer: Yes. Thank you. Thank you. I would like to thank all of you for taking your time out for this Q&A session and for this presentation. If there are any queries, you can always most welcome to reach out to us but I hope we have answered all the queries. And if there is anything missed, you can please get in touch with us.

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