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CFHRO SE CS LODR 27/2024
January 27, 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 Sirs,

Sub: Transcript of Earnings Call for Q3 FY24 Financial Results.
Ref.: Our letter CFHRO SE CS LODR 24/2024 dated January 23, 2024.

In continuation to our above referred letter, please find attached the Transcript of Analyst/ Investor conference call/earnings call held on, January 23, 2024.

The aforesaid Transcript is also made available in the Company's website i.e., https://www.canfinhomes.com/pdf/CanfinHomes-Jan23-2024-Transcript.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.,

NILESH JAIN
Digitally signed by NILESH JAIN
Date: 2024.01.27 17:20:00 +05'30'

Nilesh Jain
DGM & Company Secretary

Encl: As above.

"Can Fin Homes Limited
Q3 FY2024 Earnings Conference Call"

January 23, 2024

ANALYST: **MR. NIDESH JAIN – INVESTEC CAPITAL SERVICES**

MANAGEMENT: **MR. SURESH IYER – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – CAN FIN HOMES LIMITED**
MR. AJAY KUMAR SINGH – DEPUTY MANAGING DIRECTOR - CAN FIN HOMES LIMITED
MR. APURAV AGRAWAL – CHIEF FINANCIAL OFFICER - CAN FIN HOMES LIMITED
MR. B. M. SUDHAKAR - BUSINESS HEAD - CAN FIN HOMES LIMITED
MR. PRASHANTH JOISHY - CAN FIN HOMES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Can Fin Homes Q3 FY2024 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 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 Shashni. Good afternoon everyone. Welcome to Q3 FY2024 earnings conference call for 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 & CEO; Mr. Ajay Kumar Singh, DMD, Mr. Apurav Agrawal, CFO, Mr. B M Sudhakar, Business Head and Mr. Prashanth Joishy of Can Fin Homes Limited. I would now like to hand over the call to Mr. Suresh Iyer for his opening comments. Over to you Sir!

Suresh Iyer: Thank you Nidhesh and good afternoon to all of you and thank you for taking time out to join the investor call. To start with I will just give a brief couple of points or few points on this quarter performance and then we can go for question and answers. As you all know, the third quarter has been in terms of the business parameters of disbursement and recovery, there has been a little bit of setback, but that was not kind of guidance or which was not expected. In terms of the disbursement as you all know in the last quarter we had indicated that we have some process changes and some tightening of process that we have been initiated namely the centralization of disbursement and centralization of the reconciliation besides a couple of other things. Because of this, disbursement particularly in the month of October has been a little subdued and part of it was in terms of our disbursement, but in December, we are back to our old numbers of Rs.700 Crores in terms of our run rate per month disbursement. So in Q4, we expect that with the last quarter push also, we should be around Rs.2500 Crores to or little about that also. We should get us in the range of 13% to 14% kind of AUM growth by the end of the year.

In terms of the recovery performance, we had again guided that we have about Rs.670 Crores of restructured book of which about 450 had come out by the end of June and consequent NPA up to September has already reported of Rs.68 Crores last quarter and we had indicated that the balance portfolio also would be coming out of restructuring in this quarter and as a result some part which is to the tune of about Rs.30 Crores would be there. We had indicated that we are also carrying the management overly of about Rs.34 Crores, so additional provisioning in that regard may not be required per se and that should be able to meet us and the results have also been on the same line that we have not crossed Rs.30 Crores in terms of additional provisioning; however, as a prudent measure we have not gone for reversal of the management overlay and we have continued with the same. As a result the provisioning number in the third quarter has been high, but in terms of the total NPA and the restructured book, this is coming to a little below 15% of the total book which is around Rs.98 Crores which is in line with the 15% guidance in terms of the total restructured book of Rs.670 Crores.

In terms of recovery, going forward, the entire pain from the restructured book is almost now experienced by us. So going forward we do not expect further pain in terms of the restructured book. In terms of the non-restructured book, our NPAs are well within our norms and it is around 0.62% which is not very different from the 0.55% and this is more seasonal and by March that also we expect to come down. So, in Q4 going forward, we expect some Rs.20 Crores to Rs.30 Crores reduction in the absolute recovery figure that is a gross NPA numbers, which should therefore help us reach the number of about 0.75% to 0.80% gross NPA numbers by the end of the year.

Third point as regard the yield and cost, we had rating upgrade from ICRA for our borrowing program and now we are rated AAA, earlier we were AA+, so that has helped us in terms of some borrowing and going forward also we expect that will help us a little bit in our borrowing particularly our NCD and in this current quarter, we had therefore not a very high increase in our cost of borrowing and as compared to that increase in terms of the yield on the loan book, thanks to the Rs.6700 Crores of opening book were one rate reset was yet to be passed on, the yield has improved and therefore the spread as well as the NIMs have also improved in this current quarter. Going forward at the end of the fourth quarter, we expect that we will be able to sustain spread of about 2.6% and NIM of around 3.7% to 3.8% so that is the kind of time, because in terms of the cost, we do not expect much of increase, because some of it is aided by our rating upgrade and second is that we are also hopeful that we might be able to get NHB refinance which is our cheapest source of borrowing.

In terms of the strategy or the directional movement that we had indicated we are looking at going forward. A couple of points on that, one is that the DSA sourcing which we are upwards of 80%, close to 85% in Q1, we had guided that we want to bring it down in the end of about two, three years, we would like to bring it to 60-40 breakup. In this end of the current quarter has come to below 80%, it is about 79%, so from 85% to 82% in the third quarter, we have brought it down to 79%. The second in terms of branch expansion, we have opened five offices during this quarter and all the five offices are in the north and western part of the country. It is also in line with the indication we had given that we would like to strength our operation and thereby bring down our total dependence in the southern geography. Consequent to this, our disbursement in our southern geography of five states has come down from 74% to 72% in the third quarter, so that also in terms of the direction as indicated earlier and the last point is the ticket size also we have seen an improvement in our ticket size of loans more than 20 lakhs to 30 lakhs and more than 30 lakh segment, which is also there as one of the slides in our presentation. So these are some of the critical points in terms of our performance for the third quarter and as indicated going forward we expect to have a disbursement of Rs.2500 Crores in Q4 as we have already reached Rs.700 Crores run rate per month. So that would help us our AUM growth of 13% to 14% and once again summarizing, our NPA we expect to be down to 0.75% to 0.80% at the end of the fourth quarter and spread a NIMs at around 2.6% and 3.6%, 3.8% that is a kind of thing.

The last point in terms of cost to income ratio, we had guided that our cost to income ratio could go to around 18% in year because of our investment in our IT transformation project, but the IT transformation project because of the number of bidders and some of the queries that has come has slightly been delayed. So as a result some of the expenses that we had anticipated may not happen in the current year, so the cost to income ratio might end around 16% not original 18% or 18.5%. However, going forward for the next year we continue our guidance it will be around 18%, 18.5% as the entire cost will happen in the IT transformation project. So these are some of the key points in terms of our performance and what we expect going forward in the Q4. I thank you once again for joining us in this earnings call and we will be open for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have a first question from Harish Kapoor from Alchemy Capital. Please go ahead.

Harish Kapoor: First of all just for the data perspective around next year, you did mention the spread index and this year at 13%, 14% is the growth, but when you are looking out to next year, the rate cuts that are kind of expected and you have reset which is done on a yearly basis, that is the kind of resetting. There is a risk of BT out next year right, so how do you optimize between margins and growth yearly you said that to have and also keeping BT rate as you are looking at yearly reset, so how you are approaching this?

Suresh Iyer: Thank you Harish. In terms of this reset clause, we had again one of the points raised a couple of quarters back as well and we had indicated that our current reset will all end in the month of December, so from January we will look at a reset change in our policy as regards reset. So, in line with that in the last month we have got our board approval for change in our policy to reset into quarterly reset, so this will help us in our ALM position as well as in terms of managing our BT outs because we will be able to pass on going forward also the rates to the customers when the rates start going down in the market, so that is one point. How it will work is that for the new customers, all of them effective January 1, 2024 are on a quarterly reset basis and for all existing customers, we have given an option to reset to a quarterly reset, we have already informed all our customers and those who opt for it will also move to a quarterly reset basis and as you rightly said going forward, the rates come down I am sure customers will be more than happy to shift to a quarterly reset basis, so that I guess answers your questions.

Harish Kapoor: Second thing, I just want to understand on the disbursement side. You did mention some ground reconciliation and disbursement, but if we look at your business today, 80% largely is coming from DSA which is obviously coming to your team and filtering out the cases, but then that should be easier to get in from the DSA and centralization of disbursement, so where is the gap and where are you finding this to go more ahead?

Suresh Iyer: No, as you are saying what is the process issue, so it is just a shift, the branches earlier were having complete power to or authority to disburse the loans, cheques were also be prepared at the branches and dual signatories were there at the branches. It is just the process change where we have now added another layer at the head office where the disbursements which are scheduled will be verified and documentation will be once again checked and before instructions are given to the banks who issue the DDs, so all disbursements up to 2 o'clock which are scheduled in the system, the DDs will be generated and delivered at the branches on the same day by 5, 5:30 and for cases, which are received after 2 o'clock, the DDs will be received in the next day, so if that is what you are trying to understand that is the process, so now it is almost streamlined and all the branches are already into that system. There are no issues in that.

Harish Kapoor: Just last thing is considering where the reset that you have had on a quarterly basis now, do you believe in the near term, is there any implication if the customers come and reset and do you believe you will be able to hold on to your 2.6% spread and margin for next year, do you believe that is reset lower for next year. For next year, you also have elevated opex, so in terms of delivery and holding on to this metrics were also reset that you are talking, do you believe the same metrics you will be able to deliver or we should believe that it will be a little more and that is how we should think about it.

Suresh Iyer: No. In terms of the reset obviously it will be passed on as we experienced reduction in our cost of borrowing, because we have our card rates, which are there for new customers and so obviously that will be aligned only as and when we experience our benefit in a cost of borrowing and the new customers who come for reset also effectively get the card rate in that line, so therefore it will not be a effect where we will have to pass on to the customer before we actually experience it on our borrowing side. So in that sense the spread will be maintained. However, as in one of the earlier points we had mentioned that we are looking at a slight increase in our ticket size and moving up in terms of the ticket size ladder, so that may have a little bit of impact in terms of the competitive pricing that we will have to offer to the new customers in the higher ticket size segment, so that is why while we are having 2.66% spread today, we said by 2.6% by the end of the year and may be 2.5% plus in a year or so later in FY2026.

Harish Kapoor: Thanks for answering my question. Good luck to you.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: Wish you a very Happy New Year. Two or three questions. The first one is why have we seen lower opex in this particular quarter versus the last quarter and you did guide for the cost to income but then what would be the average quarterly opex that you can expect in FY2025 that is on the opex? Second would be, on the disbursements, what is the number of loans that we do on a monthly basis. The third part is you did mention about builder connects and getting the higher ticket sizes, but then these would be more affluent customers and there is a possibility that it can lead to faster rundown of your book, because there would be more affluent and they would have higher prepayment capacity, so these are my three questions. Thanks.

Suresh Iyer: Thanks Shubhranshu and Happy New Year to you and to everyone also. In terms of the opex your first question, in the second quarter we had a couple of one-off, one-time cost that we had mainly in terms of the incentive to the staff and annual incentive that we payout in the second quarter that was one of the things and some of the one off cost which we had for the process changes, this payment that we had to make so that is why we had roughly about Rs.52 Crores or something in the second quarter which has come down to around Rs.49 Crores in this quarter, so that is the only reason why it is compared to in Q2, it has come down. Going forward, we can expect on a quarterly basis it should be somewhere around Rs.52 Crores to Rs.53 Crores in the next year would be the opex in absolute value. Second, in terms of number of new customers, which we add in every month, it is roughly n the range of about 4000 to 4200 that would be the range of new customers we add every month and the third is as we move up the ticket size ladder whether there is a profile change in the customer resulting in a higher prepayments, it is possible as you are rightly pointed out, if the higher ticker size segment there is a propensity to prepay or have shorter tenures or higher income which can be prepaid is always there, but it is something, these are also customers who keep on coming for other add-on loans and we have constant requirement of funds for various purposes, so these kind of customers can also opt for additional loans and it can be always managed in that manner. So it may not affect the prepayment rate in a fixed way.

Shubhranshu Mishra: Understood and if I can just squeeze in one last question. If we have to split the open in terms of cost of acquisition, cost of collections and business as usual, what would be the ballpark percentage?

Suresh Iyer: I will just give you in two minutes, maybe we can move to the next question, I will come back and answer this, you want to breakup into cost of acquisition, recovery and…

Shubhranshu Mishra: And business as usual opex.

Suresh Iyer: I guess we do not have a separate cost monitoring in terms of the recovery cost, because it is all part of the regular thing, but acquisition cost or what we payout to the DSA certainly I will be able to share. We can probably move to the next question I will come back on this.

Shubhranshu Mishra: Thanks.

Moderator: Thank you. Next question is from the line of Anusha Raheja from Dalal & Broacha. Please go ahead.

Anusha Raheja: I just want to understand the disbursement number that have come for this quarter. If you can just provide us the breakup, how much growth has come in less than 25 lakh buckets and more than 25 lakh average ticket size?

Suresh Iyer: I think we have a slide on our presentation on this asset, I will just give you a slide number. We have not broken up 25 or 25 I think it is 10, 20, 30 and 30 plus that is the breakup we have given. I will just give you the slide number. So it has already given how much of business is come from this particular segment. For the year it is in slide #23.

Anusha Raheja: Okay.

Suresh Iyer: The disbursement up to 10 lakh is around 13.17%, last year which has come down to 12.87%, 25% is in the 10 lakh to 20 lakh segment, 20 lakh to 30 lakh is around 26% and more than 30 lakh is around 36% in current year.

Anusha Raheja: Okay and in terms of if I look at your AUM growth and the loan book growth relative to the peers which I would say in the growth is slightly on a lower end, so how can we expect number to be over the next two year time, so I want to understand why is it at the lower end as compared to the peers? Is it because of the competition or how do you sense it?

Suresh Iyer: First of all in the beginning of the year, we did well and we had a good 18% growth, but in Q2, we had an unfortunate event of fraud at Ambala branch one of our branches and because of that which has impacted our business because we had to undergo lot of process changes, strengthening of the systems and all, so as a result the growth has come down, but this year whatever we have lost in terms of our business expectation, business disbursement that we were expecting, we would have to cover up a little bit in the coming year and going forward roughly we would like to have about 20% odd growth on the consistent bases, so CAGR of 20% what we would like at because we would like to have a doubling of the book in about four years. So next year we can expect like as I said we are at around 700 Crores run rate in the present scenario, so about 3000 Crores disbursement on a quarterly basis, on an average is what we would expect, so anywhere around close to 12000 Crores is what we would target in the next year.

Anusha Raheja: Okay, on the margin side, you said that will be close to around 3.6, 3.7 and if I just look at large part of incremental growth is coming on the higher ticket size segment where the competition intensity is high and plus where other players are also there banks as well, so how do you sense that because if I just look at it there is also sequential decline in your portfolio yields, because of this factor, do not you think for the margins will remain under pressure for the next fiscal as well?

Suresh Iyer: In the current quarter where we have seen about 35% of the business coming in 30 lakh plus segment also. Our yield on the books has been 9.91%, so if you look at it that also give us a spread of 2.6%, so incrementally also we would not be comfortable, working or operating at a spread below 2.5%, so that is the thing, therefore the spread gain 2.5% and NIM also around 3.5% plus going forward also, we should be able to maintain that, because this quarter also it was 9.91% for the third quarter alone, standalone basis and cost of borrowing is around 7.5% that is why gives a 2.6% spread even on the incremental lending in the third quarter.

Anusha Raheja: And last thing on the branch expansion side, just to defocus from the southern region, 72% loan book is coming from the southern states, so any strategy there to have a pan India presents and having relatively more branch expansion in non-sought geographies over a period of time?

Suresh Iyer: Definitely, in fact we have already indicated, we have given in this quarter the five branches that we have opened have been in the north and in the western region of the country and going forward also we will have a more tilt toward the north and the western region of the country particularly Gujarat and Maharashtra where have a lesser penetration and we have not got presence much in Punjab, Haryana and all those places, so these are the states where we are looking at expansion and that definitely will help us slightly tilt the sourcing towards more of a 60-40 which we are targeting in the next three years.

Anusha Raheja: Thanks a lot.

Moderator: Thank you. The next question is from the line of Dhaval from DSP. Please go ahead.

Dhaval: Thanks for the opportunity. I just had couple of questions. First is on growth, I just wanted to probe a little bit more in terms of exit for Q3, what is the kind of run rate growth that you ended with like Y-o-Y or in absolute terms and this Rs.3000 Crores a quarter, how do you get that confidence, if you could share us a little bit of more detail around ability to generate this on an ongoing basis and on a consistent basis, so that is the first question that I had.

Suresh Iyer: In terms of the disbursement, we have already given the breakup of the disbursement and the run rate quarter wise for the last 11 quarters that is one of the thing that you will find in slide #19. However, as I have already explained that in this current quarter we have had a bit of a dip in terms of disbursement, but what gives us the confident that we will be able to do 3000 Crores quarter in the next year is that one we have already back to our Rs.700 Crores run rate in December, so that is already one of the things even if you extrapolate that with a little bit of push in Q4 we should be Rs.2500 Crores plus and second thing is we are tying up with our CRM and which is not mentioned actually in the presentation, but we are also tying with the CRM and lead sourcing from digital channels which we are working in the current quarter, so that is one of the thing which we are looking at good amount of growth coming or business coming from the digital channel as well, on boarding from digital lead that we are getting plus these branches which we are opening, because we have already opened three in the second quarter, five in the third quarter and we have another six or seven lined up in the last quarter. As these branches also stabilize, there will be some business coming from this also plus the third point is positive that the push for slightly higher ticket size business is reflecting in numbers, because right now in this current year if you see 20 lakh to 30 lakh segment has grown from 25% to 26% and 30 plus has grown from 34% close to 36%, so there is almost 3% increase in the plus 20 lakh segment which is what will also give us a little bit of push in terms of the business. So these are the three points which we have in mind and on which we are working right now. Hope that answers your question on this 3000 Crores.

Dhaval: Yes, this gives perspective, just one point on this 700 Crores that you did in December, what was the same number in December 2022 like Y-o-Y what kind of growth we were clocking in December?

Suresh Iyer: Last year of course it was a different push and there was of course different thing, last year Q4 was Rs.2500 Crores that was almost Rs.800 Crores per month was run rate last year, so we are back to the Rs.700 Crores already and even if you are going back to last year's number as we said because last year was already Rs.800 Crores.

Dhaval: Understood and full normalization in your view starts from Q1 onwards this close to Rs.2800 Crores start of next year and then sort of move to Rs.3000 Crores plus by Q4 of FY2025, so full normalization happens from Q1 next year or it could take some more time in your view?

Suresh Iyer: No, it will definitely start happening, because as I said all the three points, one is, in terms of the ticket size we have already started seeing, 15 branches will also start performing and some of them have already started the disbursements and in terms of the third point, this digital channels that we are doing, also will get implemented in this current quarter itself, so that also should get some results in the first quarter of next year, so we should definitely be able to maintain Rs.800 Crores plus Rs.900 Crores, Rs.1000 Crores in the first quarter and then average it out to around Rs.3000 Crores every quarter in the next financial year.

Dhaval: Understood and just one last thing on growth is, this loss of growth that we saw in FY2024, do you see a potential sometime in FY2025 to make up with slightly higher year-on-year growth directionally you started FY2024 with 18% to 20% CAGR in three to four years time given that this year we will end up probably to 12%, 13% Y-o-Y, do you see catch up happening in FY2025 or if it happens, it happens in FY2026-27?

Suresh Iyer: In terms of the disbursement definitely there will be some catch up happening in the next year because from Rs.9000 Crores close to Rs.8700 Crores, Rs.9000 Crores that we will end up this year, Rs.12000 Crores next year will definitely be a very good growth, but obviously the disbursement growth reflecting in terms of AUM growth is spread over a couple of years as we look at it, so next year also we can look at a 15% plus and then consistently around 17%, 18% plus on a regular basis.

Dhaval: Got it, very clear. Lastly on credit cost, you explained the flow through from the restructured bucket and the conservatism that you have built in the provision as well, just given that bulk of this flow through has sort of been behind us as I understand last part of that was in November or so, may be something in Q4, but largely I am sure you have a view of how thing are shaping up there? Should we expect from next quarter normalized credit cost somewhere in that low double digit or high single digit credit cost number or do you think it will take few more quarters before you go back to those normalized credit cost?

Suresh Iyer: This last October, November also we had a very small portfolio of restructured book mostly the major chunk of it almost 90% plus has already came out of the restructuring by September itself, so whatever impact it had to happen in terms of the NPA has already been experienced, so Q4 also as I had indicated in the opening remarks also that we do not expect any further pain from this, because it will be small book only which has come out in October and November. In fact in the Q4, we are expecting about Rs.20 Crores to Rs.30 Crores of a gross NPA coming down in absolute value, so from 309, we would look at somewhere around Rs.280 Crores is what we can look at by the end of the Q4 in terms of absolute gross NPA and thereafter since there will be no additional pains and the non-restructured book has already been experienced, this is not having much of movement and it is a very stable book which has no spikes, so we should be able to come back to that credit cost results as before.

Dhaval: Understood and there is a possibility of write back also in Q4 given that there will be a reduction in gross NPAs that is possibility…

Suresh Iyer: Yes, in terms of the requirement of as per ECL model, yes, there could be a definite possibility if the NPA has come down. Now, how much we choose to do, it is up to the board as to whether we will continue and take the conservative call of having the management overlay as we have done in this quarter also. Because Rs.34 Crores what we kept in Q2 for the balance restructured pool to come out and consequent provisioning, but we have not reversed it in this quarter, so again we will take a call, but at least in terms of the ECL requirement of provisioning, it will probably not be required as we are expecting as per our numbers in terms of our NPA reduction in gross amount.

Dhaval: Very clear Suresh. Thanks and all the very best.

Moderator: Thank you. The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Good evening. Thanks for taking my question. Just an extension to what Dhaval was asking. So from credit cost perspective, how should we look at the provisions which are sitting under management to overlay and restructured loans on the balance sheet given that almost all the loans are out of the restructured pool now, is there any view that the management has in terms of either retaining or utilizing these provisions over the course of next one to two years?

Suresh Iyer: In terms of the 10% provision that was required for the restructured book as per the COVID restructured guideline, which was originally Rs.68 Crores that has come down to around Rs.60 Crores, Rs.58.87 Crores in this quarter mainly because of the loans which have been completely closed since there is no asset obviously that we have not carried, but yes, there is some portfolio where more than 25% of the principle amount has been reduced and where 50% of that could have been reversed, but we have not taken that call to reverse it, so that also is a little bit of a buffer that has been carried in terms of provisioning. Going forward as I said in terms of the current fourth quarter, we may not require additional provisioning in terms of the ECL guidelines, but again in terms of the PCR we may look to have some numbers where we would prefer to have some kind of buffer in terms of the PCR, so to that extent we will carry, so that would be more clear in the Q4 and the board will probably take a call at that point in time, but in terms of the ECL requirement, it may not be required in Q4 that is all I can say right now. I guess board will take a call, but looking to the conservative approach that we have taken in the first three quarters for this year, we may still carry a little bit of provisioning definitely to have a stronger PCR.

Umang Shah: You mean to say carry a little bit of provision over and above whatever the ECL requirement is?

Suresh Iyer: Absolutely, that is in the form of management overlay.

Umang Shah: Understood, alright, perfect. Thank you so much and good luck.

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

Jigar Jani: Thanks for taking my question. Like you guided on opex it was about Rs.52 Crores to Rs.53 Crores quarterly next year. Would this be inclusive of the IT transportation cost or IT transformation cost of what Rs.30 Crores odd which we are expecting?

Suresh Iyer: IT transformation cost will be an extra to this, because this is pure opex that will be there.

Jigar Jani: And that will be close to Rs.30 Crores for next year?

Suresh Iyer: Sorry, how much you said?

Jigar Jani: That would be close to Rs.30 Crores for the full year, next year, IT transformation cost?

Suresh Iyer: No, actually it will be an additional Rs.15 Crores is what we are looking at because we are already having some opex because on our existing thing, so the incremental would be around Rs.15 Crores to Rs.20 Crores.

Jigar Jani: On credit cost, next year we would go back to that 10-bps guidance of credit cost overall if everything goes as per what we are guiding?

Suresh Iyer: In terms of our NPA where we are having it, it is roughly in the range of 0.7% is what we would be looking at by the end of next year, this year it will be 0.75% so that way in terms of that the actual credit cost would not be very high.

Jigar Jani: Right, just one technical question on the number, slide #14, we had seen the yield on loan portfolio and your cost, both yield going down, cost going up marginally, but your margins are increasing sequentially when you compare on a three month basis, so what is driving that margin increase?

Suresh Iyer: In the beginning of this quarter, we had Rs.6700 Crores of book where one 35-bps rate high was yet to be passed on, so that is why the yield on the overall book or the closing book has increased in the current quarter; however, the incremental yield is slightly lower at 9.91 because the current disbursement that we have done as we have explained earlier also with a slight change in the mix of the ticket size, that is slightly lower rates, so that is what will be the incremental yield about 9.91 going forward. So that from the current 10.01, would slightly moderate to by about 5, 6-bps or something like that.

Jigar Jani: But your spread is coming down, but your rate are going up, from 3.8 to 3.9 on an incremental basis?

Suresh Iyer: Our spread on the entire book obviously has improved from 2.6 to 2.66 and in fact we had also mentioned that because we have that buffer with us that is what is giving us the comfort to offer us more competitive rate and slightly move up and we will be able to offset it because that rates by the increase in the overall yield that we are expecting, so that we had also indicated, that was the conscious call that we have a buffer, because we will be able to offer in competitive rates and able to get some business in the slightly higher ticket size segment.

Jigar Jani: Thank you so much for answering my questions and best of luck.

Moderator: Thank you. The next question is from the line of Pavan Kumar from RP Capital. Please go ahead.

Pavan Kumar: First of all on the DSA side, the number of DSA has come down so I would like to understand what is the strategy going forward and number two, of the Rs.650 Crores of restructuring book that has come out, my understanding is this book, after coming out the book would be around six months old, so do you believe that the entire pool of GNPA that might have come out from this particular pool are already there in the system?

Suresh Iyer: First point about your DSA, we have definitely reviewed our DSA portfolio and basically it is mostly in non-performing DSAs or those who are not contributing much have been removed and of course also we had some delinquency in the pool, so where SMAs are high, we have had cut off and we have a little leaner, but mostly it is in terms of DSA is who are not very performing, so we are mostly seeking to people who are at least having some minimal level of business who are giving and it is not that it is a permanent business, permanent reduction that is going to be there. We will also be adding people, but on a regular basis we will be churning and removing those who are not performing, because there are lot of other activities also for the DSA, so no point carrying the DSA who are not performing so that is the first part of your question. Second in terms of the restructured you are asking whether the entire pool has been with us for more than six months post coming off the restructuring, not exactly but we had a small portfolio as I said up to 90% of our book has already come out up to September and three months or more than that has already been experienced and the performance of the pool is well known to us. There is a small portfolio which has come out in October and November, one or two months is what we have experienced in terms of the repayment; however, overall we had anticipated that even the portfolio which has come out much earlier general tendency is that about 15% of the pool goes into NPA and out of the Rs.670 Crores therefore about Rs.100 Crores should have gone into NPA of which already Rs.93 Crores is there. We do not expect much to happen. In fact November was the last month where we experienced a fresh flow from the restructured pool into default and into NPA, but in December actually our NPA is absolute value slightly came down that indicates whatever even if some small book does come into NPA, we are able to cover it up with more recoveries and higher recoveries than the amount which actually flows forward. So the flow back has been higher than the flow forward and that we experienced in the month of December itself for the first time after this started coming out. First time in the month of December, we saw the NPA numbers in absolute number coming down.

Pavan Kumar: Okay and one final comment on growth rates for FY2025, what would be your understanding?

Suresh Iyer: AUM growth you would definitely expect to look out about 15% plus and in terms of the disbursement since of course we will be back to around Rs.3000 Crores a quarter that will be on a higher side, because this year it will be almost about 30% in terms of the disbursement growth compared to the current year, because this current year has been a little on the lower side, so averaging it out for the standard basis, it should be around Rs.12000 Crores for the next year.

Pavan Kumar: That is disbursement?

Suresh Iyer: Yes, in terms of the disbursement, it will be on the higher side, but in terms of the AUM growth around 15% plus.

Pavan Kumar: Thank you sir.

Moderator: Thank you. The next question is from the line of Mohit Jain from Tara Capital Partners. Please go ahead.

Mohit Jain: You said that we are expecting disbursement growth, disbursement number of Rs.2500 Crores for Q4 and assuming the rundown rate of 3.6% which you have said in slide, so we will have approximately Rs.1000 Crores of repayment coming into the books, so net-net we will have Rs.1300 Crores of AUM increase which will be around 12% increase for the entire year. So my question is what can we think that you will be doing if you take it to the 14%?

Suresh Iyer: Rs.2500 Crores is the broad number frankly I understand we will have to do Rs.2800 Crores to do a 13% growth, so we are working on in fact the little higher number only, but for the number sake I have said Rs.2500 Crores, but clearly you are absolutely right, we will require Rs.2800 Crores of a disbursement in Q4 to maintain a 13% growth.

Mohit Jain: Sir, just one question on the restructuring portfolio. In Q2, we had almost like Rs.600 Crores of portfolio which was out of restructuring and the incremental, increasing NPAs on the restructuring portfolio in the current quarter is Rs.32 Crores, so if I am looking as an incremental amount flowing to the NPAs on the restructuring pool, it is coming to 20%. So, is it correct say that it is not just the incremental pool, but also the old pools some of which has flown from the current performing to non-performing in the current quarter?

Suresh Iyer: In terms of the portfolio, we had about Rs.450 Crores which had come out by the end of Q2, by June, which we had Rs.68 Crores of an NPA and by the end of December that is we have had almost up to September, we had another Rs.200 Crores which has come out against growth in NPA has been to the tune of about 93 it has reached, so 93 minus 68 would be roughly in the same range of about 15%, it would not be higher than that. So to answer your question as to why in an absolute value, there is also a growth in a loan book in our non-restructured book and there is some NPA also coming from the non-restructured book which reflects in the total NPA pool, so that is why the number looks a little higher not entirely attributable to the restructured book. In terms of the restructured book, it is Rs.98 Crores at the end of the current quarter and in terms of the second quarter, it was Rs.64 Crores.

Mohit Jain: And going forward we are not expecting any further pain from this portfolio?

Suresh Iyer: Not really, even if something is there, we also expect a flow back, so that we should definitely offset, we do not expect any further pain coming from the restructured book.

Mohit Jain: Thanks for the answers.

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

Sonal Minhas: Thanks for taking my question. My first question is with regard to you speeding up the pace of disbursement and you are talking about moving in a digital channel. Two things on this. First of all, what gives you the confidence of saying that the lead generated or the quality of the lead generated with TRL, will be a good quality, so maybe if you can share some understanding behind that and secondly, any changes you see in the market given that the competitive intensity in the sector is growing up. So what gives you the confidence that overall you can grow that is the first question.

Suresh Iyer: In terms of the digital, the enquiry would be obviously through the digital channel, but in terms of the appraisal it would be absolutely within the norms that are being followed for any other customer that we would be on boarding. So, we have also the slide, we have mentioned the entire process how it flows through where we have the KYC verification, so basically everything right from the on boarding of the customer, right up to the sanction and disbursement, all the process will be the same. So, effectively at most it could have a different ratio of conversion may be it could be 2.5 instead of normal 3% that market experiences that could be a different thing depending on our lending norms, but obviously it will be entirely as per our policies only and processes that we follow, so there would not be any compromise in terms of the sourcing that we do from the digital channel, so that is the first point. Second as regard the disbursement and competitive environment, obviously competition is there and Q4 normally there are lots of offers by most players, so nothing very different in this quarter. In fact we do not see the same kind of intensity or the same kind of very lucrative offers as yet in the market, but this is something which has been there in the industry as a normal feature that Q3, Q4 normally there are offers in the markets, so that is fine, nothing very special. As regards the competitors who normally are there in the market with whom we face competition I would say it is the same names that are there, it would be LIC, it could be P&B, HFL and it would be Bajaj off late.

Sonal Minhas: Got it Sir and I am assuming going forward, the mix remains the same in terms of salaried and self-employed is that how it is largely on the view or the mix is out of probably which you see a little for the next year or two?

Suresh Iyer: No, it is around 72% salaried and 28%, SENP, we would like to probably not go below 70% for salaried segment.

Sonal Minhas: I understand.

Suresh Iyer: Not a major change and no specific attempt to change it or anything. If it happens on a normal on ground kind of thing it will happen, but again as I said it will be 70-30 at most, that will be comfortable not below that.

Sonal Minhas: Okay. Second question, in terms of the IT infrastructure and the digital system I think you mentioned that there is a lag essentially, just from an understanding perspective where we are in terms of current systems. You are let us say the next 10, 15 people who are in designation wise, mine one to you, are there systems was basically throw out paying on dashboard and say that there is a stress building up in certain geographies, certain branch, there is a mismatch in terms of disbursement, collection or any other risk parameters per se, do you have dashboards as we speak right now and you are -1 where you know what are we actually do just trying to get a sense of your current IT infrastructure at the senior level.

Suresh Iyer: In terms of the IT infrastructure, one is of course we are looking at a complete overhaul of our system, because our existing system is almost 12 years old and we have been using the same system, but we do have a strong, we do have alerts and we have increased the number of alerts and monitoring and everything post this event also, so there are regular OTMS report, which are been generated by the risk and being monitored by them. We also have proper audit plan which is in place which also covered, every branch is covered at least twice during the year. We have also started this quarterly cluster level, because we have clusters where group of 8 to 20 branches depending on the size and location, we form clusters, so we at cluster level also we are doing a cluster monitoring where there are almost 18 parameters for each cluster which have been reviewed every quarter. So that also throws up a lot of data in terms of whether there is any pressure building up in any particular area or any particular area amongst those 18 points parameters where some of the areas are lagging behind or some of the clusters are lagging behind, so that quarterly monitoring in terms of this also is coming from the system, so that way we have a monitoring system and we are also upgrading our existing system not to mention that the new system whenever it comes, it will come, but even in existing system we are confidently monitoring an upgrading, so that is not an issue.

Sonal Minhas: Thank you a lot Sir. That is it from my side.

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

Abhijit Tibrewal: Good evening everyone. Suresh Sir, I had a question. Somewhere during this call you had guided for Rs.12000 Crores of disbursement next year and 20% kind of CAGAR, so just trying to understand that subsequently while you were answering other participants in the call, did you say that loan growth of 15% or rather still trying to say that we are looking at a 20% loan CAGAR so that the loan book doubles in the next four years?

Suresh Iyer: Good observation, the point is what I was saying was that the loan book even though next year we are looking at about Rs.12000 Crores disbursement and we will have higher growth rate in the next year in terms of the disbursement. In terms of AUM, there is a little lag that always comes, so 30% disbursement in growth will not reflect in the 30% growth in AUM, it is not a straight equation, so there will be a little lag and next year, because this year has been a little lower, there would be an impact in the next year, but in terms of the longer term story of about three to four years, yes we would be looking at a CAGR of about 20% in terms of our AUM growth. So next year could be a little less, although we will be doing a little higher growth rate in terms of our incremental disbursements.

Abhijit Tibrewal: Essentially next year, the growth could be lower than 20%, but over next three to four years, CAGR basis you are looking at 20%?

Suresh Iyer: Absolutely.

Abhijit Tibrewal: Thank you for the answer. One last question that I wanted to understand, the kind of margins that we are operating at today we are almost historically high margins that we as a franchise have operated at, in addition to the things that you talked about which will act as levers for growth, digital lead sourcing, newer branches almost 15 branches planned in 2024 higher ticket size contributing to growth. Do not you think you should also may be start looking at margin as a lever to spur growth, because at the end of it today we are operating at somewhere around 2.1% kind ROES even if we are talking about some moderation in margins from here, it is only next year where you are going to see some higher cost to income ratios. So rather than operate at these kinds of margins, is there merit in looking at margin as a lever to spur growth?

Suresh Iyer: Definitely that is what we have initiated because in an incremental yield if you see in lowers and book yield that clearly reflects that we have looked at slightly moving up in terms of the ticket size ladder where we will have to be a little competitive, so couple of bps of impact in terms of the spread could be there, but that will help us in getting the growth in terms of higher ticket size loans and may be penetrating segments also, so that is exactly what we are looking at that even if a 2.66% is not what we have been guiding in terms of spread or 3.92% in terms of the NIM, we have been guiding in terms of 2.5% for spread and 3.5% for NIM in the longer term basis and the obvious reason is that we are looking at having slightly more attractive offer or more competitive pricing in terms of our loans to attract slightly higher ticket size customers also.

Abhijit Tibrewal: Got it and just one last thing, sorry for this, just one last thing I wanted to understand now that you have two AAA, CARE credit rating giving your AAA credit rating, will you now be looking at more debt market issuances going forward and will that benefit your cost of borrowings?

Suresh Iyer: In the real sense, yes, it should bring us some benefit in terms of our cost of borrowing, but in the present scenario where the NCDs are going in the three year NCDs at a rate of around 8.3, 8.4. Our bank borrowing is still at a lower rate than that, so while the rates probably would be about 10-bps lower going forward from what we were doing on a similar state basis about two months back when our rating was AA+, but still today our bank borrowings are at a lower rate than the NCDs mainly because of the liquidity position. But going forward theoretically speaking yes, liquidity eases yes, we should be able to have a lower rate of our NCDs and we may at that time have a better rate on our NCD borrowing as compared to bank borrowing that is possible.

Abhijit Tibrewal: This is very useful. Thank you so much and wish you and your team the very best.

Moderator: Thank you. The next question is from the line of Anusha Raheja from Dalal & Broacha. Please go ahead.

Anusha Raheja: Thanks for taking my question. If I just look at your disbursement in growth number for the first nine months of FY2024 that is closer to around 6400 and if I add this to your loan book of previous nine months that is still coming to around 20% plus, but your loan growth current is 13% odd, so what I understand either the BT out get prepayments or that rundown is more on the book and I guess one of the reasons that AUM growth is not coming, so am I right?

Suresh Iyer: There is a rundown, but if you can just look at slide #19 of our presentation.

Anusha Raheja: Rundown is closer to around 2600 odd, so what you are adding also near to around one quarter growth is, the rundown is closer to around one quarter growth?

Suresh Iyer: No, that is obviously, because this quarter, the disbursement has been slightly on the lower side, but if you look at page #19 of our presentation, the prepayment or amortization plus prepayment as a percentage of the opening book has been quite stable for the last 11 quarters in fact we have probably in the current three quarters of this year, we probably have had lower amortization plus prepayment ratio compared to the previous years. Yes, to that extent your observation is correct that the prepayments and amortization has been almost equal to or may be 40% of our disbursements, but that is also because in this quarter, we have done a little lower disbursement which is the main reason. Otherwise, if in terms of a normal run rate if you were to look about Rs.3000 Crores or even Rs.2700 Crores on a regular basis, our incremental addition to the books should be much higher, it should have been almost Rs.1500 Crores.

Anusha Raheja: Broadly, how do we assume this rundown either in terms of BT out paid or prepayments in the next fiscal. You said that AUM growth could be closer to around 20%, disbursement growth of around Rs.3000 Crores odd for the quarter, but how do we what the assumption that you make, on the prepayments and BT out greater rundown that will happen next fiscal?

Suresh Iyer: No, I guess the same slide #19 should give you an idea that it normally ranges between 3.5% to around 4%, so that would be the range, that we can at worst-case scenario you can expect a 4% rundown, but basically it is the on-ground, the effort will always be and attempt will always be to ensure that we retain our good customers and that is an ongoing activity which is there for everyone, it is a normal regular activity.

Anusha Raheja: More so I believe that given that we are heading for a declining interest rate scenario in the next fiscal and the banks they declined MCLR, the competitive edge will decline since, the banks will also be offering the lower interest rates, so in that scenario the BT out could be on a higher end?

Suresh Iyer: I think we had answered it earlier also that we have also moved to a quarterly reset, so on a quarterly basis and the quarterly anniversary basis, the customers will get a benefit of the lower interest rate as we also keep reducing as our borrowing cost comes, our card rates also will keep reducing and we will pass on those rates to our customers. With that kind of fairness to the customer, I guess BT out will not be impacted as much.

Anusha Raheja: Thanks.

Moderator: Thank you. The last question is from Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Thanks for the opportunity Sir. I just had a couple of questions. If I look at the branch activity for FY2023 and I think we have discussed this with you, we were disbursing somewhere around 205 in a year, I think with the new developer tie-up that we are targeting eventually, we are targeting some 10%, 15% efficiency improvement, is that correct? So our disbursement run rate per branch would go to some 220 to 230, is that understanding correct?

Suresh Iyer: Normally also yes, if it is 200 today, it should go up a little bit that productivity, improvement is always there and with some IT interventions also happening, yes, there is a possibility to slightly improve on the productivity of the branches, so yes, you are right.

Raghav Garg: Sir, did I also hear you correctly when you said that you would try to bring down the DSA proportion to 60% and 40% contribution would be direct sourcing?

Suresh Iyer: Yes, what I meant to was that basically we are going to push for higher direct sourcing and more from to the digital channel, so while the DSA would probably continue at the same level, our sourcing from a direct and from a digital channel should increase at a higher rate that is what we are trying to do, so that eventually the percentage come down.

Raghav Garg: Understood Sir, in that 200 that we did for FY2023, 80% was DSA right so about 150, 160 was coming from DSA and the rest 40%, 50% from direct sourcing, now if we were to target that incremental productivity that we are planning to unlock, if we plan to go to 220, 230, that would imply a serious improvement in our direct sourcing productivity or the productivity of the in-house.

Suresh Iyer: Correct.

Raghav Garg: Employees or branch staff, what brings you the confidence that can go to 40% to near 100% of 70%, 80% over the next two, three years?

Suresh Iyer: We have a lot of possibilities in terms of digital tie-ups where we can source enquiries and as I had mentioned earlier also we are looking at a tie-up with this CRM and all those things where we can have processing of these enquiries and conversion at a much better rate, so this is basically what we are looking at so that this will help us increase the number of doable leads to the branches could be increased at a much higher level. So, if we can outsource enquiries and conversion could improve that would bring in a lot of more doable enquiries that is the strategy that we are looking at, basically the branch would be used more for the strength which is a credit appraisal and thereby we could be able to maintain our quality and the sourcing could be through this CRM module and through this channels that we are looking at.

Raghav Garg: Understood and Sir, just last question, I also understand that in the developer channel are yields would be lower given the higher ticket sizes and the higher competition, but what kind of commission payouts would we be doing if anything at all to the developers and ultimately would this be an RoA accretive business for us?

Suresh Iyer: In terms of the DSA channel, our normal payouts are anywhere between 0.3 to 0.65 and for us this comes out to around 0.43 whereas in terms of the developers depending on the quality of the developer, they expect anywhere between 0.10 to 0.25, so that is about 15-bps of a saving, initial payout will definitely can be saved if we are looking at a good quality developer.

Raghav Garg: But what would be the yield or how much would yields be lower in the developer source loans?

Suresh Iyer: Right now, irrespective of the developer loan or the non-developer loan, we are offering a rate of around 8.95 for a customer more than 700 CIBIL score category where the ticket size is 20 lakhs plus and it is not that for the developer generated model, we are offering something more attractive than what we would have offered to a normal customer, so as a strategy itself we are offering a rate which is around 65-bps higher than what SBI or an HDFC would be offering in the market.

Raghav Garg: Thanks a lot Sir. That is all from my side.

Suresh Iyer: Just a second. I think there was one question on opex regarding how much is the cost of acquisition I will just answer that. Out of Rs.49 Crores, Rs.50 Crores that is the opex in a quarter, the average payout to the DSA would be around, somewhere in region of Rs.6 Crores to Rs.6.5 Crores, the rest of it is the regular business expense and part of it is the recovery expense. I think there was one question raised earlier which I said I will respond to later, so about Rs.6 Crores to Rs.6.5 Crores is the payout to the DSA currently in a quarter. I guess that is it from our side, any more questions or was this the last question?

Moderator: This was the last question. I would now like to hand the conference over to management for closing comments.

Suresh Iyer: First of all, thank you to all of you for taking the time out and I hope all the questions have been answered, but in any case if there are any more questions feel free to get in touch with us and once again thank you for joining this conference.

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