

CFHRO SE CS LODR 138/2025
30/04/2025

ONLINE SUBMISSION

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Dear Sir/Madam,

Sub: Schedule of Analysts/Investors Meet

Ref: 1. Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
2. Our letter no. CFHRO SE CS LODR 135/2025 dated 24/04/2025

In continuation to above referred letter, please find attached the Transcript of Q4 FY25 Earnings Conference Call held on April 24, 2025.

The aforesaid Transcript is also available on the website of the Company www.canfinhomes.com

This is for your kind information and record.

Thanking you,

Yours faithfully,
For Can Fin Homes limited

Nilesh Jain
DGM & Company Secretary

Encl: as above



“Can Fin Homes Limited Q4 FY25 Earnings Conference Call”

April 24, 2025



MANAGEMENT: **MR. SURESH IYER – MANAGING DIRECTOR & CEO, CAN FIN HOMES LIMITED**
MR. VIKRAM SAHA – DEPUTY MANAGING DIRECTOR, CAN FIN HOMES LIMITED
MR. PRAKASH SHANBHOGUE – GENERAL MANAGER, CAN FIN HOMES LIMITED
MR. PRASHANTH JOISHY – DEPUTY GENERAL MANAGER & CHIEF FINANCIAL OFFICER, CAN FIN HOMES LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Can Fin Homes Limited Q4 FY25 Earnings Conference Call.

As a reminder, all participant lines will be in listen-only mode, and there'll be an opportunity for you to ask questions after the presentation concludes. Should you need assistance to the conference call, please signal an operator by pressing “*” and 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. Thank you and over to you.

Nidhesh Jain: Thank you, Mike. Good afternoon, everyone. We welcome to the Q4 FY25 Earnings Conference Call of Can Fin Homes Limited.

To Discuss the Financial Performance of Can Fin Homes and to Address your Queries, we have with us, Mr. Suresh Iyer – M.D & CEO; Mr. Vikram Saha – Deputy M.D.; Mr. Prakash Shanbhogue– General Manager, Mr. Prashanth Joishy – DGM and CFO 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 I welcome all of you to the Earnings Call of Q4 FY25 for Can Fin Homes.

Just to give a Brief of the Performance for the 4th Quarter and for the Year ended March 31, 2025.

The few points is that the small issue of e-Khata that we had experienced mainly in Q3 of this year, we have seen some improvement in the disbursement position and some e-Khata release is also happening, as a result of which, our Karnataka disbursements in Q4 have increased by approximately Rs. 200 crores compared to Q3 of the year. So basically in the month of January and February, we could do about Rs.200 crores each, and in the month of March, we have touched Rs.300 crores. So, that's one positive point, and as a result with other zones also continuing to do well. Our growth in Q4 has been 31% compared to Q3.

Just to give a brief, our North Zone, West Zone and Tamil Nadu Zones have grown at 36%, 16% and 27% respectively for the entire year.

In terms of the guidance for the current year, that is FY26:

We are very positive that we should be able to achieve a 20% growth in disbursements because the three of the zones major zones are already performing well with Karnataka also looking to come back

to the old numbers and what we had seen in H1 even Karnataka should be doing around 20%-plus growth, and Telangana, which was an issue for us, has also kind of reached the level from where now we have bottomed out, already in Q4 we have started seeing a small turnaround from the bottom of Rs.70 crores that we had done in one of the months back to about Rs.100-crores plus. So we are confident that one Telangana would be in positive this year. So in terms of the growth, we are confident about 20% growth in FY26.

As per the performance of the recovery, during Q3, we had the increase in the SMA-0 because of the change in the regulatory guidelines which we had indicated that we would be working in explaining to the customers, educating them and more aggressive follow-ups for SMA-0. So that has been done and we are happy that to show that the number of Rs. 770 crores which had gone up was on account of less than Rs.1,000 overdue, we have been able to collect the majority of it, and as of the end of Q4, this number of SMA-0 has come down by almost equivalent Rs. 700, Rs.750 crores, and even our NPA numbers have reduced in absolute number as well as in percentage and it is at 0.87. As indicated in the previous quarter also, we would say that 0.90 is the kind of number that we are saying we can kind of look forward to, it should not be any increase beyond that.

So in terms of the reduction in SMA-0 and the reduction in NPA, we have had an actual write-back in our ECL provisions in Q4, to the extent of about Rs.10 crores. However, as the prudent measure, the management has taken a call to have a management overlay of an additional Rs.25 crores. So there was a Rs.34.28 crores management overlay being carried, added to that, another Rs.25 crores has been done in this quarter, as a result of which our management overlay now is at around Rs. 59.28 Crores or approximately 15 to 16, 17 bps of the overall book size. So net-net, if you exclude the management overlay, the ECL provisioning or the credit cost would be around Rs.50 crores approximately, which is about 13 bps which is lower than the 15 bps that we have been guiding for throughout the year.

In terms of the other areas, in terms of the strategy that we have been talking about in terms of a shift to a little more towards SENP category and a little more towards the North and Western regions, the situation is that from a beginning two years back of about 89% of portfolio being housing including CRE, it has come down to 85%. So, there has been a gradual reduction and we would like to in the next three years take it down to around 80%. That is including the CRE for housing, even the SENP, which we had indicated was around 72% was salaried and 28% was SENP. On the books now it stands at 70% salaried and 30% SENP. So there also the journey has been going on and in the next three years, we would like to take it down to 65% salaried and 35% SENP. So that journey is also on course.

In terms of the branch expansion, there was a plan to open 15 branches during the year, which has also been opened. So the current position stands at 234 branches. And the new branches also been

able to contribute throughout the year and they have been on course for a normal reaching the profitability in 18 to 24 months' time, which is a normal thing. In terms of the current year, we plan another 15 branches in FY26 again predominantly in the north and the west and a little more few in Tamil Nadu as well. So we are looking at ending FY26 with around 249 branches.

In terms of profitability and in terms of the ratios, our guidance of 2.5% spread 3.5% NIM has throughout been maintained in the last year and we would continue to maintain that kind of guidance for the current year also of a spread of 2.5%-plus and 3.5%-plus NIM which would therefore allow us to maintain ROE of 17 approximately and ROA of 2.1% to 2.2%. The positive part is that for the first time in the company in terms of the PBT, we have reached the four-digit mark, which is for the first time in history, so that is one positive in terms of profitability.

So in terms of the guidance for the current year also, we would like to have a spread and NIM of 2.5%, 3.5%-plus, ROA of about 2.1%, 2.2%, that is what it is we are looking at.

I once again welcome all of you to this and throw it open for any questions you can. Thank you.

Moderator: Thank you. We will now begin with a question-answer session. We have the first question from the line of Rajiv Mehta from YES SECURITIES. Please go ahead.

Rajiv Mehta: Sir, how are we going to ensure that SMA-1 and SMA-2 accounts doesn't flow forward? And what mechanisms are put in place for that?

Suresh Iyer: Sure. See, actually in SMA-0, basically it was more of a small change in regulation where the advance whatever was there had to be adjusted to principal, and nothing was being carried. So basically we moved over with educating the customer and being more aggressive in terms of follow up with the customer for the charges, also sending by changing the text of the pre-NACH intimation and all those kind of things which we will continue in our throughout. This is the new norm now we will be more explicit in our communication to the customer. So, that's basically what we will continue to do. Focus on SMA or we also have a probable SMA like for example from 15th onwards we start following up with the customers whose current month EMI has not yet come, because our NACH cycles are 5th, 10th and 15th. So those there has been a bounce, obviously it starts from the very next day the check bounce happens, and even otherwise for the rest also we have this probable SMA-0 which we start following up from the 15th onwards throughout.

Rajiv Mehta: I am sorry; my question was with regards to SMA-1 and SMA-2.

Suresh Iyer: Yes. So basically the SMA numbers also we have to be following up with this only. We are increasing the number of staff also in some of the branches where the numbers are little high and plus we also have increased the call center, because as the base increases also, we need to have that pressure. So

we have also increased so that repeat calls can be made also to our existing customers. We are also initiating and following up for skip tracing wherever the numbers are not going through for three or four calls and stuff like that. So these are some of the steps we have also increased or added to our current processes so that we can work on the SMA-1, SMA-2.

Rajiv Mehta:

Okay. And sir, my question is on management overlay. So what do we see as the benefit of topping up management overlay or even holding management overlay because we didn't utilize management overlay in early FY24 when we had that Ambala fraud provision. We made a fresh provision without utilizing the existing management overlay then. So how and when can this management overlay be utilized for us? And especially this question also assumes significance because you also have 49 crores worth of restructured provisions which will get rolled down or released over the coming years as these accounts are closed or transferred. So you already have some kind of a buffer for provision coming in the future, and plus your topping management overlay who's utilization of how and when is not very clear. Can you just throw some light here?

Suresh Iyer:

See, basically this restructured portfolio provision that we have been carrying is more of a regulatory requirement and it will be coming down as and when the portfolio gets released that gets closed. So if you see we started out with the opening restructured book of about Rs.720 crores, at that time was around 680 or something, so we started up with a 68-point something crores of COVID restructuring provisioning, which now as and when the portfolio has come down to around Rs.480-odd crores, this provision has also been reduced because as and when the portfolio gets cleared or closed, the account gets closed, this will come down. So over a period of the next few years as and when the portfolio goes down, this provision will completely become zero. It will be withdrawn and that you would have seen in the last year, 1.5 years, 2 years also we have been exercising that and reducing that provision. In terms of the management overlay, it is purely just a prudent kind of thing. There is no major concern or anything that has resulted in this management overlay, but it's purely because from the old PCR concept where at least some of us are used to a net nil NPA also. In the ECL provision calculation in fact, our Stage C provisioning comes to somewhere around 45% to 48% in that range only. Therefore it's a very low number. So from that point of point only we have at least thought that somewhere in the range of about 15 bps extra if that can be carried. So that was the logic just to have some kind of 10 to 15 bps extra. So that's the only logic and otherwise there is no reason to say that there is a major concern or anything except that during the quarter there are some fluctuations. So this gives a little more comfort that if at all some fluctuation, though like it happened in this regulatory change which happened in Q3, if that result, but that otherwise is not a major reason. So you are right in a sense, there is no sense in as such carrying that provision because so far at least in the last two years, we have not actually utilized it. Even when it did go up, we made it from the current year profits we provided for the additional provisioning. So from that point of view only it is purely a buffer, it is purely a comfort and strengthening of the balance sheet and nothing more.

- Rajiv Mehta:** Okay, Sir, that's it. Thank you and wishing you all the best.
- Suresh Iyer:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Shreepal Doshi from Equirus. Please go ahead.
- Shreepal Doshi:** Hi sir, thank you for giving me the opportunity. So my first question was on the cost of fund movement. So given the consecutive rate cuts, how do you see the cost of fund trending in FY26 and how will you pass on the rate benefit to the end customers and its implication on the margin for FY26?
- Suresh Iyer:** Sure. Thanks, Shreepal. See, we had a 25-bps reduction in the month of February and further another 25 bps in the month of April. So, the entire bank borrowing portfolio that we have about 55% or something. That entire portfolio is either linked to the repo rate of 80% of it and the remaining 20% is linked to the T-bill. So those 80% of the bank borrowings that we are having the benefit of the first repo rate cut was passed on to us in the last week of March when we made the interest payments, because the reset happens on a quarterly basis linked to the interest payment frequency. So that 55% whatever impact is going to come to us is roughly going to be around 5 to 7 bps which is going to be effective from 1st of April for us. The second benefit of the rate cut is that the Q4 we raised the Commercial Paper (CP), which is about 7% of our book at approximately 7.3% to 7.4%, whereas now the CP rates have come to below 7%. So that way in fact today in fact when we were looking at something, it was almost in a range of 6.6%. So anywhere between 6.6%, 6.7% is what you can consider. So there's been a good amount of reduction in the rates at which we are going to replace the CPs also. So net-net I would assume that the combined effect of both 50 to 60 bps on the 7% CP that we carry plus the 5 to 7 bps that is coming on the entire book because of the 55% bank borrowing would translate to somewhere around 10 bps by the end of this month for us. So we will look at the next ALCO meeting, we will definitely be considering whether we can pass on to the customers the 10% that we are experiencing. But it will not have an impact on our spread because we know we will be passing on to the customers only after we experience on the liability side. So, we don't expect to have it impacted on our this thing. In terms of the lending, normally, when there is a lag in passing on to the customers, there could have been some impact in terms of the BT out. But so far we have not seen the incremental lending rates being changed by any of the HFCs or some of the private sector banks also. So it's only on the existing customers, the banks have and that also PSU banks mainly have reduced their rates for the existing customers. But for the new customers, not much except for a few PSU banks it has not changed. So in fact the slight delay in transmission to the customers also may not have so much of an impact at least till now on the BT out also.

- Shreepal Doshi:** That 10 basis points benefit on the cost of fund is assuming only 25 basis points rate cut. So since there was cumulatively 50 basis points rate cut, is it fair to assume that the benefit will be 15 to 16 basis points?
- Suresh Iyer:** Yes, it could be a little higher up to 20, 25 also. But the point is that that this April rate cut benefit will probably pass on to us by the end of the quarter only, whereas it is the 50 bps as I said and the CP is already reflected or is already factored in. But in terms of the bank borrowing rates only the first one has been factored in because we have had one interest repayment cycle in March. But for the April 1, the interest repayment cycle will come in June. So only post that we will experience the second rate cut benefit for us on the bank portfolio.
- Shreepal Doshi:** Got it. Got it. Got it, sir. And there's no impact on margin is what you're highlighting for the full year?
- Suresh Iyer:** Correct, correct.
- Shreepal Doshi:** Got it. The second question was on the provisioning bps. So we are carrying almost 15 to 16 basis points of this management overlay. So is it fair to sort of assume that next year we might do provisioning which would be lower in terms of the run rate or from the guidance point of view as we can also absorb some bps from here?
- Suresh Iyer:** As for the provisioning, yes, it will definitely be below 15 bps because whatever impact of the restructuring, whatever impact of the stickiness, whatever other things have all been factored in. So what I would say is the present NPA of 0.87 is the figure which is not going to increase or is not going to see any major change. So having said that, I believe next year in fact the provisioning may not be as much and therefore we may not be required to make. So the guidance of 15 bps for the credit cost, but I guess it should be lower than that.
- Shreepal Doshi:** Got it. So one last question was on the tax rate front. So this quarter the tax rate was just 16% and for the full year it is closer to 20%. So could you just explain the difference here like?
- Suresh Iyer:** Sure. See, basically, if you go back in time that is in October '23 post-September results, we had a review of our tax rates and the 36(1)(viii) benefit which was not getting captured into our tax calculation was done. Therefore, our tax calculation at that point in time, which was 25% without considering the 36(1)(viii) benefit was reduced to 21%. And that was what was in line with the industry and everything because subsequently the 36(1)(viii) would come later post the assessment. So, when we change that calculation methodology in 2023 October, so at that time there was for the first two quarters of '23 that is June '23 and September '23 quarter, there was already a Rs.19 crores excess provision for tax, which was already provided for. Now, that time the assessment order has just been done this year in Q4, therefore, that Rs.19 crores has been reversed. So that we have actually

reduced the provision for taxation in the current quarter. That is why it is looking at a lower rate. Otherwise technically for the quarter the actual provision for taxation is around Rs. 242 crores. But because of this Rs. 19 crores reversal on account of the the assessment order getting passed, net is Rs. 220, Rs. 222 or something. Okay? In fact, this Rs. 19 crores which was also a write-back because of a previous year calculation is also what prompted us to take this management overlay otherwise it would have been unnecessarily looking at a current year profit which was actually pertaining to previous year. So that was also one of the reasons which prompted us to also use that previous year income to strengthen our balance sheet.

- Shreepal Doshi:** So going ahead there will not be any reversal from the tax point of view, right?
- Suresh Iyer:** No. In fact, the full year of FY25, we have gone with the revised calculation only, which also has now been as part of the assessment getting closed has also been accepted and cleared. So basically now the rate would be 21% approximately, which is what is the real tax rate.
- Shreepal Doshi:** Got it. Got it, sir. Thank you so much, sir. That was helpful. Good luck for the next quarter.
- Suresh Iyer:** Thank you.
- Moderator:** Thank you. We have the next question the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.
- Abhijit Tibrewal:** Yes. Thank you and good afternoon, sir. Sir, just trying to understand on the OPEX side. If I look at your other OPEX, slightly elevated versus what we are used to seeing. Any one-offs there on the expenses side?
- Suresh Iyer:** No, nothing. In fact, only because of this provision management overlay that we have taken we have shown it as this thing. Otherwise, there is no other specific reason for this. No other expenses or one-offs have come in other than this. There is no other reason. It's all been in line with the normal for three quarters.
- Abhijit Tibrewal:** Management overlay that you have created during the quarter would have got routed through the provisioning line item, right, if I am not wrong?
- Management:** It will come under impairment, which will form part of the cost when we divide the cost-to-income ratio.
- Abhijit Tibrewal:** That's not part of OPEX, right?

Management: Yes, it's not part of OPEX. Disclosure also if you see the SEBI format it comes above the line before the debt comes.

Abhijit Tibrewal: Got it. Okay, fair enough. So the other thing was I was trying to understand is while in your opening remarks you did speak about things getting better in Karnataka more e-Khata is coming in. If you could for the benefit of all of us help us understand how should we look at things evolving in the coming months, right, what is it that you are hearing from your regional managers on this problem and what is the status today and by when are things expected to get fully normalized?

Suresh Iyer: See, in case of Karnataka, at least in the Municipal Corporation limit of Bangalore, in fact they have already sorted out this e-Khata issue. So there's been a good trickle of e-Khatas coming out on a regular basis. Whereas in case of the UDA that is the urban development authority and the panchayat it has still not been done although the government has been working towards resolving that issue also. But having said that, even this small impact of this Municipal Corporation limits getting resolved what has happened is our disbursements in Q3 had dropped to approximately Rs.150 crores per month. We were doing about Rs.275 crores per month disbursement in Karnataka which dropped to around Rs.150 crores for the Q3. In Q4, things slightly started improving from January. So in January we were able to just push... and of course there was also a slight shift in strategy where we started pushing for a little more of LAP because for LAP cases we don't need a refresh registration because the customer is already having the property document. So for LAP also we slightly pushed. But having said that this change of this Municipal Corporation limit e-Khata also helps. So January and February we were able to touch Rs.200 crores and in March of course there was a little push also plus a little more improvement in the e-Khata. So we were able to touch about Rs.300 crores. So compared to around Rs.450 crores to Rs. 475 crores or something that we have done in Karnataka in the third quarter, we have done almost Rs.200 crores more in Karnataka alone in Q4 compared to Q3. And with this panchayat and urban development authority areas also getting resolved which we hope will happen in Q1, I think definitely we should be back to Rs. 75 crores disbursement per month numbers for Karnataka very soon.

Abhijit Tibrewal: Got it, sir. This is useful. Just to understand this a little better. While you have guided for 2.5% spreads and margins of 3.5% plus, so trying to understand that till now we have not passed on any interest rate cuts to the customers and maybe we will do that in the upcoming ALCO meetings?

Suresh Iyer: That is correct. We have not done because as I said we experienced it only in the last week of March when we made the repayment. So, now the actual impact is going to come now. So we will now examine the exact benefit that we are getting and take a call in the next ALCO.

Abhijit Tibrewal: Got it. As of now, the initial expectation is maybe at the entire liability book level, we will see a 10 basis points kind of a decline which we hope could get passed on to the customers?

- Suresh Iyer:** That is correct. That is correct.
- Abhijit Tibrewal:** Got it. And so to that instance, I mean you also suggested earlier in the call that you are not seeing any additional aggression from HFCs or private banks even after there have been two rate cuts already, right?
- Suresh Iyer:** That is correct. We have not seen major rate cuts in the incremental lending rate from the HFCs and some of the private banks.
- Abhijit Tibrewal:** Got it. Okay. Thank you so much for being so patient. Lastly, this guidance that you gave earlier during the call of a 20% growth in disbursements in FY26, I mean, are there any additional things that you would be doing this year beyond expanding 15 more branches, focus on self-employed, focus on LAP that you spoke about earlier in your call, right? Because what I am trying to understand is somewhere during this year, we are also going to see that tech transformation that we have started, right? So just trying to understand I mean, how confident are we about this 20% disbursement growth this year?
- Suresh Iyer:** See, I will just share some numbers. Like our North zone last year consistently throughout the year, quarter-on-quarter we were able to have a good healthy growth of 25%-plus and ended with more than 30% growth by the end of the year. Same with Tamil Nadu also was consistently able to show a growth throughout the year and ended up with around 25% of growth. West zone also has had a consistent growth and throughout the year was positive and ended with around 16% growth. Karnataka was around 20% growth in H1, but because of this e-Khata issue, it dropped and we could end the year with around 3% growth. So technically FY24 we were doing about Rs. 220 crores per month, which was the average because we did about Rs.2,650-odd crores in FY24 in Karnataka and that was working out to Rs. 220 crores. In H1 we reached about Rs. 275 crores, which was clearly a 20% growth. But now because of this e-Khata issue, we could end with only a 3% growth. So we are back to Rs. 225 crores average for the entire year and Karnataka has ended somewhere in that range of about Rs. 2,700 crores for the entire year. So at Rs.275 crores also if we are able to do Karnataka we would also be able to do 20% growth. And in Telangana as I mentioned in my opening remarks, base itself has gone down to a level of just about Rs.100 crores per month, which is way below what we have earlier achieved. So even from here, we have already started witnessing the turnaround. So we can expect a 15%, 20% growth. So this would be the normal thing. Now, the second thing is last year you would recall we had started this marketing or sales department with a small team of 30, 35-odd people. So in Q3, the team was able to contribute in the entire quarter somewhere in the range of about Rs. 60 crores, in Q4 that has number has increased to about Rs.100 crores. That is in three months put together. So having said that it gives confidence that this team with a little more addition of staff now should be able to start contributing a little more. Same also for the case of the branches which we have opened in FY24 they have started decent disbursement of about 75 lakhs per month

per staff plus in the year and this current year they would be doing a little more, plus the branches which we opened this year will also add a little bit. So basically these are the things which will definitely contribute. And as per the tech transformation, yes, it is expected in Q3. So, we are already working towards minimizing the impact or... I wouldn't say there will be zero impact, but definitely we are trying to work towards minimizing the impact of that transition so that it doesn't affect our Q3 numbers also much.

Abhijit Tibrewal: Got it. This is very, very useful. Thank you and wish you and your team the very best.

Suresh Iyer: Thank you, Abhijit.

Moderator: Thank you. We have the next question from line of Shweta from Elara. Please go ahead.

Shweta: Thank you, Sir for the opportunity. I have a couple of questions. The first one being that you guided for restriction of NPA till 0.9%-odd level and for the whole of FY25, we have seen provision for NPAs around 150, 160-odd broader range. So, do we expect that quantum also to slide in the forthcoming year? Second is so I joined that bit late -.

Suresh S. Iyer: 150 what -?

Shweta: The provision which is held for NPAs for throughout the year, each quarter, has been somewhere in the range of 150 to 160. So, do we expect that also to come down given that we are guiding for 15 bps below credit cost and also GNPA we are aspiring to restrict to 0.9%-odd levels. That's the first question. Second is on the disbursal front. I joined late. I am not sure whether you covered this. So given the fact that now you are saying like we closed March with Rs.300-odd crores per month disbursement. So which means for at the quarterly run rate level can we easily put up closer to 30-odd billion of disbursements going forward and Q1 per se will start looking better than what we posted in Q4 around 24-odd billion? And lastly, so you mentioned that the long-term goal or couple of years down the line we'll be seeing 65:35 mix, right, but the DSA sourcing continues to move higher and it's around 82% and even for incremental disbursements, it's 80%. So how do you see this sourcing mix changing with that AUM mix shift? Yes. Thank you.

Suresh Iyer: Sure. I will take one-by-one. Thanks a lot, Shweta. First, on the provisioning side, yes, our guidance would be for about 15 bps, but I am fairly confident it should actually end up below. In fact this year also excluding the management overlay, our credit costs have been to the tune of about 13 bps or something only because in the first three quarters we had a cumulative provisioning of about Rs.60 crores. But in Q4 we had a write-back of Rs.10 crores. So net about Rs.50 crores is what is the provisioning which works to around 13 bps or something. So next year also with the majority of the impact of all these restructuring, everything already built in I don't expect the NPAs to go up much except for the percentage to be almost in the range bound only. So yes, it could be lower than 15 bps,

but as a general practice we are being prudent in our guidance and we would say about 15 bps would be the guidance for provisioning though it would be definitely lower. The second thing is disbursement. We mentioned Rs.300 crores. We touched for Karnataka as a state in the month of March. Now, obviously March is one month where for reasons unknown it's always magic in math in March. But having said that normally Q1 and Q2 are a little more subdued. So 2,400 that we have done, I would rather say we would target somewhere around 20% over Q1 of last year because the momentum of March normally doesn't sustain in April and May considering there are too many holidays, too many vacations and all those things, plus also post-March, always in Q1, Q2 is a little lower, it's 45%, 55% H1, H2 kind of a break up. So I would say 20% in Q1 over Q1 of last year is what I would say would be a more realistic number for disbursement. Third question was regarding DSA sourcing. Yes, we have been guiding for bringing it down to 60:40. I mean this year we have just been able to bring it down from 82 to 80. So it's been a little slow in terms of progress compared to what we would want, but it has been a very stable set of DSAs. So there is no reason to kind of discontinue them or to pull them out or stop doing business from them. So basically they have been solidly supporting us, but yes, our direct sourcing or sales team will also keep pushing and we will see some improvement coming from there. So, yes, gradually this number will come down and the sales team business will keep going up, but so far it's been slower progress, but we would like to see it comes down slightly.

Shweta:

Sure. Thank you, sir.

Suresh Iyer:

Thank you.

Moderator:

Thank you. We have the next question on the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah:

Yes. Hi, good afternoon. Thanks for taking my question. Suresh, I have a couple of them both on asset quality. One is, is there any particular segment of the loan book which you are in particular worried about be it non-housing portfolio, the restructured loans, the SMA piece, is there any part of the loan book that worries you today?

Suresh Iyer:

No. In fact, we have looked at it. Restructuring book was one that's where we started actually doing this management overlay. But maximum guidance we had given was that 18% of the restructured book would be in NPA. So, as we end the year actually two things have happened; one is the outstanding portfolio of the restructured pool has also come down from around Rs.720 crores at this peak to around Rs.480 crores or something now, plus the ratio also from 18% has come down to around 17%. So during one of the quarters we had said it might peak to around 18%, which it did. But now as at the end of the year, in fact it has actually come down. So in the restructured pool also, we don't see much of an issue. And during the year we have experienced... both we have been

monitoring both the salaried segment as well as the self-employed segment as well as a little bit of a geography-specific NPA also. But again, there only Telangana slightly showed more increase compared to the others, but there also in the Q4 we have not seen any major change. So in fact in Q4 that also slightly changed. So, I would believe that also is now under control and probably we have peaked out in terms of Telangana delinquencies also.

Umang Shah:

Okay, okay. Suresh, that brings me to my next question. I am just trying to understand the management philosophy on provisions, right. I mean if I look at your last decade, there have been only three instances where your credit cost has crossed even just 25 basis points. One such event was Ambala incident, the second the other two years were actually COVID years, right. So barring that your credit cost has been fairly below 20 basis points. If I look at all the other matrices, be it stage 3 provision cover, be it overall ECL on the book with or without management overlay, or with or without the provision or restructured loans, it feels that we are adequately covered, right? I mean so what is it that the management or the board is kind of targeting when we are talking about conservatism because it appears that we are fairly provided for, I mean all through the call your commentary has been fairly upbeat about credit cost and asset quality. So just trying to understand then what's the rationale of holding the management overlay? And a related question is that assuming we are just holding these provisions on the balance sheet, under what circumstances will these be utilized, right, if we don't really have intention of utilizing it, let's say in the normal course of business?

Suresh Iyer:

Yes. Thanks. I will just try to explain, Umang. Basically, you are right, I mean we don't see a major kind of a reason to hold the overlay except for the fact that post in the ECL scenario, our stage 3 PCR has always been below 50% which always we have been used to maintaining at a higher level. So that was slightly one issue where that is we thought if we can have something like a 15 to 20 bps extra buffer over and above our normal ECL provisions, that would help. So that was the basic one point. And second as I had mentioned earlier this year, we also had approximately Rs.19 crores of tax refund which was pertaining to the FY24 wherein we had in the first two quarters of FY24 provided for an extra provision for taxation which post the closure of the assessment, we have got a refund or we have got adjustment in our tax. So basically that was one aspect also which triggered us to kind of take this view that the same Rs.19-odd crores would also help in kind of build a stronger book. But otherwise there is no reason to look at it. As for when we would want to take it back, as you rightly pointed out, the last 10 years also in gross NPA, we have never crossed 1%, in terms of our credit cost, we have not had a major setback or a major spike in any of the years barring the Ambala incident mainly. So I guess it would be a kind of a buffer, maybe we'll have to see when we can kind of take a reversal. But as of now, it's purely just the kind of comfort that we have about 15 bps extra which is there as a management overlay.

- Umang Shah:** Sure. And just the last one is that on stage 3, again, I mean we run a 100% secured book, in fact our stage 3 PCR would be comparable if not better than some of our peers, so do we have any particular stage 3 provision cover target number in mind or we are comfortable at about 45, 50%-odd?
- Suresh Iyer:** No. See actually ECL provision when we look at this thing probability of default definitely works based on the performance of the account for the last five years, which is a purely actual data based analysis but the LGD which comes out is also a factor of the assumptions that we have been taking and we have been very stable in the assumption that we have been taking right from day one in what period the account once moves into NPA, will come out of NPA and things like that. So I think these assumptions will remain and therefore this 45% to 49% kind of coverage on stage 3 will probably continue. There is no other reason. It's purely a matter of the assumptions that we have considered for the purpose of originator LGD from the PD.
- Umang Shah:** Understood. And Suresh, just one last question is, I mean you kind of answered it in fair, fair amount of detail about your conviction for a 20% disbursement growth in FY26. But assuming if at all there is any disruption in the third quarter because of this whole tech transition and assuming you have to work with just about 11 months in FY26 when it comes to loan origination, would you still be confident of achieving a 20% sort of a growth rate for the full year assuming everything else remains constant?
- Suresh Iyer:** Yes. So if everything else remaining constant, yes, we are confident, it should be a 20% growth in disbursements and we are targeting that, so that would be somewhere between Rs.10,000 crores, Rs.10,500 crores is what it would come out to. Yes, we are confident that unless there is a major disruption which we are trying to minimize, there should not be a major change and that should not impact our growth target of 20%.
- Umang Shah:** Alright. Perfect. Thank you so much for taking my questions. Wish you all the best.
- Suresh Iyer:** Thank you, Umang. Thank you.
- Moderator:** Thank you. We have the next question from the line of Kushan Parikh from Morgan Stanley. Please go.
- Kushan Parikh:** Sir, thanks for taking my question. My question is largely on the margins and the lending rates. So we spoke about passing on the cost of fund benefit as and when we experience it to the customers. Just hypothetically wanted to understand, is this practice works in the sense, will the customers continue to remain happy with like 10 bps kind of pass on in terms of the rates going forward as and when we see the benefit in our borrowing costs and that should be sufficient to keep the balance transfers in check or if we see any aggressive rate cut coming in the market from banks, will we also have to follow suit or do you think it is sufficient on a regular basis?

Suresh Iyer: Traditionally, HFCs have been following this practice of passing on only after they experience it on the liability side. And so this practice I think is a generally accepted practice in the market. The second thing is that in the current scenario where as I had mentioned that the current HFCs players have not reduced the rate because none of them have experienced the benefit on their liability side, even some of the private banks have not increased or reduced the rates for the incremental lending for their customers. So, even if my customer wants to shift, they will not be able to get the reduced rate because that is only for the customers who were in the books of a bank as on a particular date of the repo rate cut, whereas for the incremental rates it continues to be the same, Okay? And in fact the pressure is still there on the banks for borrowing because the deposit rates have not come down and in fact what we have experienced is that banks have still been reluctant to pass on the repo rate cut on incremental loan. So, for example, a bank which was lending to us that prior to the rate cut cycle was lending to us at repo rate plus 150 basis points, roughly around 8%. That is now saying that even after the reduction they would be comfortable giving it at repo rate plus 170 bps basically because they are also having a pressure on the spread on the margins. So going forward also I don't expect that incremental lending rates to come down that first, although it may have some impact to the customers. So I guess the 10 basis points will be sufficient provided others are also in the same line. The second point is whether there will be BT pressure. Yes, normally in such scenarios because of the lag effect, there will be some impact on BT out. But at least in March we have not experienced this and as long as the incremental lending rates do not come down, the other players also will not be very aggressive to cut their rates.

Kushan Parikh: Understood. That was quite a detailed answer. That answers my question. Thank you.

Suresh Iyer: Thank you. Thank you, Kushan.

Moderator: Thank you. We have the next question from the line of Aditi from CD Equisearch. Please go ahead.

Aditi: Good afternoon, sir. Sir, my first question is like why have the dividend payout ratio substantially increased this time.

Suresh Iyer: Sorry, dividend payout ratio -.

Aditi: Has increased substantially this time.

Suresh Iyer: So basically the general feeling was that for the retail which is about 20%, 22% of our shareholders, at least a dividend payout ratio used to be in the range of about 8% to 10%. So at least we thought that close to 20% dividend payout ratio would be healthy. So that's the main reason why we have been doing it. But I guess now that we are almost at 18.9% or something as the dividend payout ratio. I think now going forward probably we will kind of limit it to this 18% to 20% range of dividend payout ratio. But basically it just started with the thing that we should at least be having a 20% kind

of dividend payout ratio, which for us was very, very low about say three years back or something as low as about 7-8% or something. So that was only justification. But going forward, as I said, we might probably retain it at around 18% to 20% kind of a range in which we will want to have the dividend payout ratio.

Aditi: Okay. And sir, what are the challenges the company is facing in increasing loan book?

Suresh Iyer: Sorry, sorry. Can you repeat the question?

Aditi: What are the challenges we are facing in increasing the loan book?

Suresh Iyer: Obviously, the challenge is that we need to have a higher growth in terms of our disbursements. We are having a 16% run down in our book on an average for the entire year. So obviously if we have to do a 20%, we will have to do 35%, 36% of our loan book which is what we will have to disburse in the current year to have a 15% AUM growth. So basically it's clearly a function of our disbursement that will drive the AUM growth.

Aditi: Okay. And how will that happen like are there any macroeconomic challenges that you're facing?

Suresh Iyer: Yes, we have been discussing that. Since last year in fact, we had a challenge on two fronts, two of our major markets basically, that is Karnataka and Telangana. Karnataka was more of a temporary issue whereby the registration process was changed in the state, as a result of which we have had some delays in the registration of documents sale transaction. That affected our business and the state where we were experiencing about 20% growth, had to slow down and we ended up with around just a flattish or a 3% growth in Karnataka. And it's a major market for us because that contributes about 30%, 35% of the incremental disbursements for us. The second market where we were affected was in Telangana, where more of a sentiment issue. I would say more of a long-term thing where there would be a change in the entire growth for the state itself. But having said that there also we have kind of bottomed out and I believe from here onwards on that lower base, we will definitely have a growth from there also. So these are the two major reasons why we have had an impact on our growth in disbursements, which has affected our AUM growth.

Aditi: Okay. And sir, like are you planning any change in funding to reduce the cost of borrowing?

Suresh Iyer: Madam, we have about 55% borrowing from our banks and the only change I would see is one is that NCDs we'll have to raise a little more because we have a requirement of 25% of incremental borrowings has to come from market which will be NCDs basically. So that now which is around 19%, will slowly inch up to 25% in the next two years and would probably remain at that. The second change which should happen is that the National Housing Bank has come out with mortgage-backed securities, fundraise program where they will be raising bonds or NCDs basically and against the

receivables of the portfolio held by lending institutions, that is the HFCs to start with. The pilot project is being currently under process. They would be doing it. Once that process is done, I think the NHB is planning now in going forward raise more funds from the market and then give it instead of a refinance where there are limitations in terms of how much they can lend. So that would be another source which would open up for us in the current financial year. We are also looking at participating. The program is such that the NHB will raise and also be one of the participants to that. And so that will be giving us something like enhancement for us for the institutions because they are the ones who are also doing this inspection and monitoring of the HFC. So they will be also coming in as one of the backups for this and there will be an MRR of about 10% which the institution will have to have. And as the pilot is being worked out, once that is successful, more and more HFCs will be getting involved and participating in that mortgage-backed security debenture issuance which should also increase our borrowing avenue.

Aditi: Okay, sir. Thank you.

Suresh Iyer: Thank you.

Moderator: We have the next question from the line of Pavan Kumar from RatnaTraya Capital. Please go ahead.

Pavan Kumar: I wanted to understand what would be the cost-to-income next year because the thing is in FY25 there has been a decrease in terms of the OPEX what I see, given your IT investments, etc, what do you think will be the cost-to-income going forward maybe for the short to medium term? And also one particular thing I noticed on your balance sheet was the amount of investments has gone up and so as the debt. So what is the reason behind that, can you just throw some light?

Suresh Iyer: Sure, sure. So first is the cost-to-income. So the cost-to-income in fact for FY26 we don't see much of a change, it will be almost in the 17% give and take a few basis points. I think that would be the cost-to-income ratio for the current year. Because the IT transformation costs that are going to come in, will actually kick in from FY27 only that is April '26 only. The reason being that the project was given in the month of January. So, there is a 12-month implementation period, followed by a three month handholding. So basically till March '26, whatever expenses are there, will all be capitalized as the project implementation phase and therefore the actual cost which will be the depreciation as well as the annual maintenance contracts and all those things will start coming in from FY27 only. So FY26 we expect the thing to be around 17%, but FY27 onwards, I think it would go up by about one percentage point somewhere in the range of 18% it should be, because the total cost would be around Rs.55 crores including the CAPEX and OPEX but the current Rs.15 crores that we are spending currently per year for our IT expenses, that will stop post our moving to the new CBS. So effectively the net impact will be about Rs. 40 crores for the year, which would be around 1% of the

overall this thing. So FY27 we can expect the cost-income ratio to increase to around 18%, but for the current year we think it will be around 17% only. The second is the investment in -

Pavan Kumar: Right, right. I was asking about the increase in debt and also the other side increase in investments.

Suresh Iyer: Yes. The investment basically is we have done about Rs.400 crores of additional investment for our LCR purpose because as our book is increasing, we need to also increase our LCR, plus the regulatory LCR requirement moved up from 60% to 70% and this year it has already moved out to 80%. So from 70% to 80%. So basically for our LCR purpose we have had an investment during the year of about Rs.400 crores. That was the one for the investment purpose. I think you asked something about increase in expense also, right?

Pavan Kumar: I can see your debt, which is like that is deposits plus your borrowing has gone up from around Rs.33,800 crores to around Rs.38,000 crores. So I was just like what has changed in this particular quarter for that to have happened?

Suresh Iyer: No, if you are going by the presentation, first of all, my apologies. There is one small presentation page that I think the total borrowing is showing as Rs. 38,000 crores, right? I think that is what you're referring to. Yes, actually there is a mistake; it is Rs.35,289 crores actually. So the increase in borrowing has been to the extent of about Rs.3,400 crores, which is similar to the kind of increase in our AUM also.

Pavan Kumar: Okay. Got it.

Suresh Iyer: Thanks. My apologies.

Moderator: Thank you. We have the next question line of Sahej Mittal from 3P Investment Managers. Please go ahead.

Sahej Mittal: Hi. Good evening, team. Sir, just one clarification. So our disbursements in 4Q ex of Karnataka and Telangana is around Rs.1,450 crores. Is that number right?

Suresh Iyer: No, as I said about Rs.1,600 to Rs.1,700 crores is the disbursement other than Karnataka for us in Q4. We have done Rs. 2,455 crores disbursement, of which about 700-odd crores is from Karnataka. So 1,700 approximately is somewhere that number is where we have done from other than Karnataka.

Sahej Mittal: Okay. And this number for 3Q would be?

- Suresh Iyer:** For in Q3 we had about 1,879 crores of total disbursement, of which close to 475 crores or something was from Karnataka. So roughly about 1,400-odd was from the rest of the states. So 1,400-odd or something has gone up to 1,700 in Q4?
- Sahej Mittal:** Got you, sir. Perfect, sir. Thanks and all the best.
- Suresh Iyer:** Thank you.
- Moderator:** Thank you. We have the next question, the line of Gaurav Jani from Prabhudas Lilladher. Please go ahead.
- Gaurav Jani:** Yes. Thank you, sir. Firstly, sir, just wanted your assessment of given the deposit rate cuts, how do we plan to sort of control the repayment rate in FY26, right, because banks have already started reducing the deposit rates be it bulk or SA. So I am sure there will be an increase in competition in the housing space. So how do you plan to tackle that?
- Suresh Iyer:** So actually we are discussing that we will be passing on some benefit of the borrowing cost advance benefit that we get in to our customers, about 10 bps right now and probably another 15-odd bps in Q2 is what might be able to pass on, which obviously will be lower than what banks are doing. So particularly in our 50 lakh plus segment where the competition is definitely there directly with the PSU banks and the large private sector banks, there definitely there could be some pressure and we will have to look at some retention or something for the customers. So that depending on the strength of the cases, credit score, the interest rate, we will be looking at something on a case-to-case basis for those customers. But for the below 50 lakh probably it may not be as much because there the main competition at least up to the 35 lakh, mainly from the other HFCs and smaller banks. So it is beyond that which is a small percentage for us, we will definitely have to look at some retention policy over and above what it is there. So depending on the CIBIL score, depending on the repayment track, we will be reviewing our policy.
- Gaurav Jani:** Sir, just want to reconcile some numbers and just wanted your comments on growth, right. So assuming a 20% disbursement growth on a 15% repayment rate, that translates to about a 12% AUM growth. So how do you plan to actually increase that number going ahead?
- Suresh Iyer:** See, current year, yes, we are looking at a 20%-odd growth. Our run down generally is around 1,300 and something crores per quarter. So approximately Rs.5,600 crores is the run down that we are looking at for next financial year. So to have a 15% growth, we should be somewhere in the range of about Rs.10,500 or something crores of disbursement we should have to be able to arrive at a healthy growth. So obviously we will be trying for that and that is what we have said that 20% disbursement growth resulting in a 13% to 15% AUM growth is what we will be looking at.



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- Gaurav Jani:** And then lastly, if you could just quantify the investment income for the FY25? Last year it was about Rs.125, 126 crores.
- Suresh Iyer:** I think we will come back to you on that.
- Gaurav Jani:** Sure. That is it from my side. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Suresh Iyer for closing comments.
- Suresh Iyer:** Yes. Thank you very much. I once again thank all of you for taking your time out and I hope all the queries have been answered and if there are any more queries feel free to always get in touch. I guess we have answered, I will just come back on the investment income, probably I will revert back to Mr. Gaurav, right. Thank you once again to all of you for joining in the earnings call for Can Fin Homes.
- Moderator:** Thank you. On behalf of Can Fin Homes Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.