"Can Fin Homes Limited
Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2020 Earnings Conference Call of CanFin Homes Limited, 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. Utsav Gogirwar from Investec Capital Services. Thank you, and over to you.

Utsav Gogirwar: Thank you, Stephen. Good morning, all. Welcome to the Quarter three FY2020 earnings conference call of CanFin Homes Limited. To discuss the financial performance of CanFin Homes and to address your queries, we have with us today Mr. Girish Kousgi, MD and CEO of CanFin Homes; Mr. Shreekant Bhandiwad, Deputy MD; Ms. Shamila, Business Head; and Mr. Prashanth Joishy, CFO of CanFin Homes Limited.

I would now like to hand over the call to Mr. Girish Kousgi for his opening comments. Over to you, Sir.

Girish Kousgi: Good morning to all of you. We had a very good quarter. You must have seen the numbers. I just thought, I would just give you a summary and then share our vision and then open the discussion for any specific questions which you may have.

If you look at growth in terms of disbursement, last quarter was almost flat, last to last quarter was negative, whereas Q3 we have grown by 12%. So, disbursement has grown by 12%. This is a very good sign we think because we have been saying this since the last few months that we are seeing growth in the market because we operate in niche segment where we do not see too much of competition, and this quarter we have seen a growth of 12% disbursement, which is quite different compared to the previous few quarters.

Book has grown by 15%. I am just rounding it off.

If you look at revenue, revenue has grown by 16.41%. This is all Y-o-Y Q3 comparison. Revenue has grown by 16.41% from 444 Crores to 517 Crores.

If you look at net interest income, the growth is about 23%.

And we had a very good increase in PAT, which is 41%. Last year, Q3 was 76 Crores and this year Q3 is 107 Crores. So, it is an increase of 41%.

Our NIM has increased. In comparison, last quarter was 3.31% and this quarter it is 3.42%. Going forward, we will try and maintain this NIM. NIM would not increase substantially because there will be only variance in terms of maybe 2 or 3 bps.

Yield has more or less remained very stable. We maintained spread off. Actually, we improved spread to 2.32%, it was 2.17%. So now it is 2.32%.

The incremental cost of borrowing in Q3 has come down, so we have managed to keep our cost pretty low.

Asset quality is quite stable. Last quarter was 0.79%. This quarter is 0.8%. A lot of effort has gone into collections and recovery. We have seen some results this quarter and coming quarter you will see a significant impact in terms of NPA numbers.

If we look at our liability mix, more or less, I think we have focused largely on banks, keeping cost as the guiding factor. You have to compare with last year Q3. There is an increase from 48% to 57%. NHB, it was 13% last year Q3, and this year it is 15%. So not much of a change there, and NHB, we actually prefer because, it is from regulators, so they are a little stringent compared to other hill stations where we borrow, and to that extent we feel really reassured, and anyways we get that with the advantage of lower cost.

Market borrowing was 38%. Now it has come down to 26%. We have kept our CP percentage quite low within 26%, it is hardly 9%, and deposits grew from 1% to 2%.

Now, this is broadly on the numbers. In terms of our strategy, we remain focused on home. Today, our home is almost close to 94%, and I am just taking top-up as part of home loan because that is a secondary loan given on the primary security and primary loan based on the repayment track record. So our LAP exposure is only 5 Crores, and all others put together it is another 5% and 1%. So 94% is home loan and we want to keep it this way.

Our salaried is still at a portfolio of 71%. Even on incremental sourcing, our salaried is about 70%. Our ticket size remains almost same. There is no change in ticket size. We focus on affordable. We operate in Tier 2, 3, 4 kind of cities, and therefore, our focus is on low property value and low loan ticket size.

In terms of branch expansion, I had said this earlier also, we would reach a branch count of 200 by March, so we stay committed to that number.

In terms of market, there has been a lot of challenge in the market. Demand is slowly coming back, but still a long way to go. Especially in non-affordable space, there is too much of pain in system. Since we do not operate in that, we are not really impacted. So for us, the market has slowed down a bit since number of players have come down, and we thought it is an opportunity for us to try and grow our book, keeping our risk profile of the company intact. So we could encash on this till now. So going forward, we will try and keep growing at a reasonable growth.

I would now request for any specific questions which investors might have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhagash Shah from CD Equisearch. Please go ahead.

Dhagash Shah: Good morning. My question is that, what percentage of your incremental loan book in Q3 has been inorganic?

Girish Kousgi: Everything is organic. 100% is organic.

Dhagash Shah: Okay, and Sir, regarding your LAP book, can you tell us that what is the largest exposure?

Girish Kousgi: If you look at our LAP, it is only 5%, and we focus on low ticket size. Average ticket size for LAP and non-LAP is still the same. So, in terms of what could be the, I am not very sure, I need to check this. My highest LAP could be, I am not very sure, may be 40 lakhs or 50 lakhs, I need to check that. Otherwise, if you look my 50 lakhs and above, at portfolio level, is only 3%, and majority of this 3% is home and salaried.

Dhagash Shah: Okay. So roughly Sir you are saying out of that 1000 Crores, largest is 40 lakhs to 50 lakhs?

Girish Kousgi: I am not very sure. This is my guess. It should be in the range of maybe 40 lakhs to 45 lakhs.

Dhagash Shah: Okay, and Sir, regarding the last question, you mentioned that 100% is organic. So, could you give us an idea about what part of it is refinanced from other banks or other NBFCs?

Girish Kousgi: Refinance from other banks or NBFC is 0. This is the entire business, which CanFin has done. So, there is no inorganic growth.

Dhagash Shah: Are we looking at inorganic going ahead?

Girish Kousgi: Not at the moment.

Dhagash Shah: Okay, and Sir, just one last understanding part of it that why is the comparative growth slow in the housing book?

Girish Kousgi: I am not very sure with this question because we see that there is growth in both the home and non-home. Only thing is since the non-home, the book is very small. So, the growth seems to be a little higher, and in home we have a large portfolio. In home, we have grown by 15% and non-home is about 20%. Since the base is very small and that is the reason you would see the growth in non-home is quite high compared to home. Otherwise, our focus remains on home.

Moderator: The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: I am just trying to put this into context, we have our margins at 3.4%, which have improved, spreads have improved, we have a tax benefit, and we have like a couple of competitors, a fairly large-sized competitors who are active in the affordable space now becoming beleaguered, right? So, what stops us from trying to push the pedal on growth a little bit? At least, optically, it looks like we are just pricing ourselves out of the market by holding onto our spreads and our NIM. Is there no space where you vacated? We appreciate that, like the space itself is taking time to grow, but then is there no scope for market share gains?

Girish Kousgi: We want to be very, very cautious in our growth. We want to grow. We will definitely grow much higher than market growth rate, but we do not want to really press the pedal too much and grow at a rate which is harmful for the asset quality. So, we are very, very clear on asset quality. We feel about 19% to 20% growth is a good growth rate, considering the market situation, and therefore we want to be focused on 20% growth rate. So, is there an opportunity to grow at 25% to 30%? The answer is yes and no. The answer is yes, but then definitely it will come with a lot of nuances, a lot of challenges which we do not want to take, because we are very, very clear on asset quality. Growth of 30% in this market, definitely the portfolio would suffer, and we do not want to grow compromising on asset quality and compromising on profitability, and therefore we thought that 20% is a good rate.

Nishant Shah: Fair enough, Sir. Just a couple of follow-ups on this. Let us take something like a DHFL. They have vacated the space. Probably, there is a little bit of room for you to price the risk better. Are we not able to gain some of the market share from some of these vacated spaces, like where without compromising on your asset quality? Or is your understanding that these were probably opportunities which could have never fit into your risk appetite criteria, these kinds of borrowers?

Girish Kousgi: Let me answer your question in two parts. One, definitely, we are trying to gain that share, and therefore, you can see growth, which has come back. Our risk appetite is different. So, I do not want to name the HFC or company. But what we do is what fits into our risk profile, we are happy to do, and we see that a significant part of the space which is vacated does not fit into our risk profile.

Moderator: Mr. Shah, sorry to interrupt, sir but for any follow up request would you rejoin the queue please.

Nishant Shah: Sure. Okay.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: Thanks for taking my question. My first question is on the repayment rate, that repayment plus prepayment rate has shot up in the current quarter to almost 8-quarter high. So, what is it that we are seeing in the market? And specifically, let us say, the repo-linked rates as well as MCLR coming down, is it a trend that banks are poaching on to our clients or why is it so high?

Girish Kousgi: Okay. So why is it so high? It was high in this quarter because of the CLSS subsidy credit, and therefore the book came down, and that is where you see that the prepayment approvals are high. Otherwise, we have been managing customer retention very well. So that is the only reason. Decrease in interest rate, both in MCLR and repo, that is there and that was there even in the past so because there is a differential pricing which banks charge and which we charge, and therefore, there is always an arbitrage. So, we have taken that into account in our business model. So that is not the reason. The reason is because of a subsidy amount. Because of that the book went down.

Nirmal Bari: What would be the quantum of this subsidy in the current quarter?

Girish Kousgi: It is about 145 Crores to 150 Crores.

Nirmal Bari: Okay, and secondly, the capital adequacy ratio has also shot up from 18% to 22% in the current quarter. So, what was the reason for that?

Girish Kousgi: Capital adequacy is 22%, okay. Here basically, there are three parts. One is signed and one is not signed. So, these are two categories. Number three is, sanctioned, agreement signed and part disbursed. So, we need to provide for sanctioned and part disbursed, sanctioned and agreement signed, and not for sanctioned, agreement not signed. So, there was some classification, which we did in the last quarter, which we rectified this quarter, and therefore, 22% is the right number.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Thank you. My question has been answered.

Moderator: Thank you. The next question is from the line of Punit Mittal from Global Core Capital. Please go ahead.

Punit Mittal: I have two questions. First of all, Mr. Girish, welcome to Can Fin. Exciting to have you on board.

Girish Kousgi: Thank you so much.

Punit Mittal: Now two questions. One is on the repayment. It seems your prepayment has increased, which is surprising given that the competition is reduced and as you have mentioned that you do not compete with banks. So where is this repayment coming from?

Girish Kousgi: I think I answered part of this question earlier. Let me just repeat. Prepayment looks to be higher in this quarter because there was about 145 Crores of CLSS credit what we got, and therefore the book went down to that extent, A. B, when I said we do not compete with banks, we do not compete with banks when we source and book business. However, after, let us say, two or three years' time, so customer would see an opportunity. This is in the business model. This is true for any HFC, because there is a differential in pricing between banks and HFCs. So after, let us say, three years or four years, some of the customers may move out. So today, we have HFCs, which charge different rates. For example, let us say, starting from 9%, right up to 15%, 16%. So, we have categories of HFCs. We have categories of banks. PSU banks charging the lowest, starting from 8.2%, 8.3%, and there are certain banks, which charge about 8.95%, 9%, 9.25%, and there are so many categories starting from 8.75%, they go right up to 14.5%, 15%. So, there is a risk of book depletion in terms of HFCs losing some kind of book to bank. For example, CanFin would lose some kind of book to bank, which charge lower rate. At the same time, CanFin also has an opportunity to do the BT in from HFCs where the rate is higher, rate to customer is higher, but which fits into our risk profile. So, there is BT in and BT out. Every day, day in and day out, this is there. So, we have a strategy to retain our customers and that is in place. But having said that, we need to budget this. This is part of a plan. This was there, when HFC started decades back, and this will continue for the next four to five decades, maybe more than that. So, this is part of the business model, and we manage that. Increase in prepayment in Q3 was because of CLSS subsidy. I hope I have answered your questions.

Moderator: It seems like we lost the connection from Mr. Mittal. We move to the next question from the line of Amit Rane from Quantum Securities. Please go ahead.

Amit N. Rane: Thank you for the opportunity Sir. I had one question on asset quality. How much is the stage 2 assets as on Q3 and comparative number in Q2?

Girish Kousgi: We can share that with you.

Amit N. Rane: Okay, and Sir, outstanding borrowings as on Q3 FY2020?

Prashanth Joishy: Borrowing is 17,800 Crores.

Amit N. Rane: Okay, thank you.

Moderator: Thank you. The next question is from the line of Ritesh Bhagwati from Rockstud Capital. Please go ahead.

Ritesh Bhagwati: Thanks for taking my question Sir. My question is like, was this growth in disbursement a one-off one, as we did quite better in this quarter versus previous quarter? And will we able to maintain this kind of disbursement growth for the forthcoming quarters as well? So that is my first question.

Girish Kousgi: I have said this before also, we are seeing an opportunity, and therefore, we want to grow and we will grow at about 19% to 20%. So what growth we have seen in Q3, this would continue in the quarters to come.

Ritesh Bhagwati: Okay. So, you are saying like overall disbursement growth rate can be in the range of 19% to 20%?

Girish Kousgi: Yes. So, what I am saying is, in next four to five quarters, we can see a growth of 20%.

Ritesh Bhagwati: Okay, next four to five quarters, at least 20% kind of disbursement. And one last, in regards to the stake sales of Canara Bank, so that has been an overhang on the company since quite a long time. What is wrong? What is happening over there?

Girish Kousgi: I mean, as far as we are concerned we are focused on business and operations. The company is pretty strong. We see growth coming in from various quarters, so we are focused on that. Today, our parent is Canara Bank, so it is eventually their decision. I would not be able to comment on that. As far as we are concerned, we focus on company operations and business.

Ritesh Bhagwati: Okay, that is it from my side. Thanks a lot.

Moderator: Thank you. Next question is from the line of Bunty Chawla from IDBI. Please go ahead.

Bunty Chawla: Congratulation on a good set of numbers. I have two questions. One is that, as we have seen the cost of funds has declined during this quarter, but there has not been a big movement on the yield front. So how would we see the net interest margin for next two to three quarters? How should that shape up?

Girish Kousgi: Any incremental reduction in cost of borrowing, you can see the impact in the next four quarters. The impact in this quarter was a little. Next quarter will be slightly better, and then, of course, so in next three to four quarters, you can see the impact. However, what is important is, we have been able to raise funds at a much lower cost. So, it is a good sign for next three to four quarters in terms of earnings.

Bunty Chawla: So, can we say the margins should improve from here on as the cost of funds should decline?

Girish Kousgi: We do not know how the intercept market is going to pan out in the future, though the trend looks to be either flattish or slightly down. All we can say is that we will maintain our spread and maintain our NIM. So, there could be a slight increase by maybe 2, 3 bps, but otherwise, by and large, we will try to maintain this.

Bunty Chawla: Okay, and lastly Sir, previously, we used to give our target for the loan growth for next three to five years. So now that has been removed from the presentation. Now what is the thought process? How we should take the loan growth per se for next year and next to next year?

Girish Kousgi: I can talk about next two years. All of us know how the market is. So, a lot of things changed after IL&FS scenario, and therefore, what you saw earlier is not there now. So next two years, our growth will be moderated. As I mentioned, it will be in the range of 19% to 20%. So, we will take stock after two years, what should be the growth rate depending on the market situation. Because now we see a lot of pain in system, though the demand is there, supply is quite low. So, since there is a gap in demand and supply, we cannot really grow at the rate which we saw pre-IL&FS regime. So, for next two years, we would grow much higher than industry growth rate.

Bunty Chawla: So, 19% to 20% for next two years, you were just talking about loan growth.

Girish Kousgi: About 19% to 20% is what we feel that we should be able to grow.

Bunty Chawla: For loan growth or for disbursement you are speaking?

Girish Kousgi: I am talking about AUM growth.

Bunty Chawla: AUM growth. Okay, thank you very much Sir.

Moderator: Thank you. The next question is from the line of Antariksha Banerjee from ICICI Mutual Fund. Please go ahead.

Antariksha Banerjee: My first question is on the liabilities piece. You gave out the borrowings number, Sir. Now if I look at from mix, what the message is you have degrown your capital market borrowings by 20% both Y-o-Y or Q-o-Q, roughly like that, and I am sure that will be including NCD, CPs both. Now I speak about this in light of the event on your rating that happened during the quarter and subsequently the announcement made by your parent to not go through the stake sale. So, what is the dialogue we are having with the rating agencies now? And what is your plan for fresh capital market borrowings in this quarter? Or when will you look to that?

Girish Kousgi: Okay. Let me answer your question in three parts. One is, if you look at the CP, CP is about 9% of the total liabilities. Okay, now we want to raise CP only if we have a backup, and we want to keep this percentage quite low. So, we want to be a little low on CP considering the risk. So that is by design. Now on the NCD, there were some maturities happened. So, we have a plan to raise NCD, which maybe we will unveil in next few months. Now what drives the source of borrowing is largely the cost. Now banks, we are able to raise long-term fund from banks at a much lower rate. In spite of one notch rating downgrade, we were able to raise at the best possible rate. So, we were raising at AAA rates. So, I think that has not impacted us at all, and now since the decision is out on the stake sale, we are engaging with rating engines and they are pretty comfortable. So, I think we expect maybe in the days to come there will be a revision in rating.

Antariksha Banerjee: Sure. So, when you are talking about your cost of funds going down in the next three to four quarters, it is including of your NCD raising plans and the borrowing mix and whatever?

Girish Kousgi: What I mentioned was at the overall level, we will maintain our spread and NIM, so which means I have to manage my overall cost of funds at a lower level, so that we will manage. Because today, if you look at, for me, NHB is the lowest followed by banks. Of course, I am not talking about CP. CP would be the lowest then NHB and banks. So NCD would come at a slightly higher cost and even deposit at a slightly higher cost.

Antariksha Banerjee: Can you tell us how much outstanding we still have unutilized?

Girish Kousgi: We have close to about 4000 Crores.

Antariksha Banerjee: 4000 Crores unutilized lines.

Girish Kousgi: No, the 4000 Crores is unutilized, which is documented and unutilized. When I say this, I am excluding sanctions.

Antariksha Banerjee: Yes, sure. Okay. Do you want me to follow up or do you want me to join the queue?

Moderator: Sir, I request you to rejoin the queue, please. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Sir, I think the results have been so good that there is nothing to ask on the business part. So, I have two questions, which are slightly more theoretical. One is that since you have just spent a few months with whatever experience you could gather of this organization, what would be your two or three top priorities in the next one year? So that is my question number one. Question number two, is that I understand that with the stake sale part, you guys have nothing to do, it is the parent who will decide. But what are your dialogues with the banks because I think we have a lot of borrowings which come from banks, Canara Bank especially and a lot of other banks. So, what do you expect or you can give us any color on what can happen if, say, the buyer is a private entity, whenever that happens, what happens to the comfort that the banks enjoy right now versus what they can later on? Thank you, Sir, that is it from my side.

Girish Kousgi: So, for us, top three priorities are not in the order of priority. But yes, these are the top three. Growth, asset quality and profitability. So, these three are the top three priorities.

And in terms of dialogue with the banks, our pitch is very clear. As a company, standalone, we are doing extremely well. We have a very clear strategy laid out. We are seeing growth. We are making more profits and maintaining asset quality.

So, what happens in terms of change of hands is something which we would not really get into. So, I do not want to really speculate on that. If at all it happens in the future, at that point in time, probably, I would be able to comment. So as of now, our focus is only on the company in terms of managing and growing.

Digant Haria: Alright Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Congratulations for good set of numbers. Firstly, in terms of the overall exposure on the home loan side, how much would be towards the under-construction property?

Girish Kousgi: I guess you are asking this question for the apartments, correct?

Kunal Shah: Yes.

Girish Kousgi: So, if you look at the total portfolio, 75% is self-construction, independent house and composite loans. So only 25% is apartment funding. So out of that, we fund only low-rise projects and we fund at nearing completion stage. So, if you are asking about completion, that is hardly anything.

Kunal Shah: Okay. Yes, so in terms of the risk on the asset quality, what we are seeing it for the other housing finance company with a similar profile, they have a relatively higher GNPLs compared to us. So, we are not seeing that kind of a stress rising in our book and in fact we are stable?

Girish Kousgi: No, we are not seeing. We are not seeing because of three to four reasons. One, our share of LAP is very low, it is hardly 5%. B, we operate in very select and safe geographies. Number three, the asset is only based on declared income, not surrogate income. Number four, we are in affordable space, so our ticket sizes are much lower. Even in case of stress, if we have to sell the property, our recovery is 100% in terms of costs and we have literally no exposure to developers. Because of all these four or five reasons, we are not seeing our stress, which generally is seen by other companies.

Kunal Shah: Sure, and what is the incremental yield and incremental cost? And cost, if you can just break it down between at what rate are you borrowing from banks and through NCDs?

Girish Kousgi: NCD, we have not borrowed for the last few months. So NCD, I would not be able to comment. But I can see at least 20, 25 bps lower on the bank rate.

Kunal Shah: No. Sir, what is the rate as of now, incremental?

Girish Kousgi: I am saying it is a blend. Blended bank borrowing would be about 20 bps lower, which is 7.75%.

Kunal Shah: Okay, and incremental yields?

Girish Kousgi: Our spread is 2.32%, so our cost is about, if you take for Q3, the cost is 7.88% and yield is 10.2%.

Kunal Shah: No, Sir, this is on a book basis. I am asking on incremental.

Girish Kousgi: For incremental yield I will come back to you. Incremental cost is about 7.75%.

Kunal Shah: Okay, thank you.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities Limited. Please go ahead.

Piran Engineer: Congrats on the quarter. I just wanted one clarification. To an earlier question, you said that you do not do refinance of other HFCs loans, but then you also said that you do BT ins. Can you please clarify on that? And how much of our disbursement actually came from BT in?

Girish Kousgi: What I meant was, definitely, we do BT. What I meant was, there is no portfolio buyout.

Piran Engineer: Yes, that is fine. But in terms of BT in, how much would that have been?

Girish Kousgi: On a monthly basis, we do BT of, not much, about 20%.

Piran Engineer: 20% of disbursements is BT in on average?

Girish Kousgi: Yes.

Piran Engineer: Okay, and my second question is, over the last couple of quarters, large HFCs have cut their home loan rates, and how much have we cut our home loan rates in the last six months?

Girish Kousgi: We have not cut across all the segments. Certain segments we have cut about 30 bps and certain segments for some time about 0.45% to 0.5%, that is 50 bps. So, it is between 30 to 50 bps.

Piran Engineer: So, what does our interest rate start at now?

Girish Kousgi: See, with an offer, now it is 8.75%.

Piran Engineer: 8.75%, fine. Thank you so much Sir and all the best.

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

Sanket Chheda: Congrats on good set of numbers, probably an improvement on all the fronts. My question is on NIM. So, the benefit that we might have derived from annual rate we said that you were talking about in last quarter also. So, all of that has come in into this quarter or there is some benefit pending in Q4 also?

Girish Kousgi: As I told you in any, if you want to see an impact, it will be spread across three to four quarters. It is a one-year cycle. So, to answer your question, yes, there is some impact in this quarter. There was some impact in last quarter also. So, every quarter, there will be some impact. So that is only one part of it, and also, there is a lot of focus to increase NIM, and therefore, you have many pieces added to this increase.

Sanket Chheda: Okay, and Sir, just on the funding mix, we used to have NHB more than 20% at some point in time in past. So, it being the lowest source of funding, are we planning to increase that or this is the optimum level, which we can borrow from NHB?

Girish Kousgi: It depends on the rate. For example, in last six to eight months, we are getting funded at a very, very competitive rate from NHB, whereas earlier it was not. So, from whom we will source primarily depends on cost we are raising. It was higher earlier. Now it is quite low.

Sanket Chheda: Okay, and how things are panning out in southern geography, state of Karnataka? And are all the issues relating to registration and you were talking about it getting smoothened out. It has started smoothened out, what is the progress over there?

Girish Kousgi: I think if you are talking about last year, Karnataka, there were certain challenges in terms of RERA registration. I think that is now resolved, and because of that, growth, which was quite low, now it is back. At least for us, now growth is back, though we operate in different segment, we are not too much dependent on developers for funding the apartments, and therefore, we are not impacted to that extent. However, generally, Karnataka was quite low last year. Now the growth is back, and not just Karnataka, now our dependency on Karnataka also is coming down because we are growing in other markets. Like AP, we are growing, Telangana we are growing, we are growing in Tamil Nadu, we are growing in northern markets. So specifically, about Karnataka, growth is back.

Sanket Chheda: Okay Sir, and one last question that now we sit on probably the lowest cost of funds if we compare our peers. Is there any thought process in mind to grow the nonsalaried segment because I feel in that segment also we have the ability to now cherry pick accounts without having to compromise on asset quality?

Girish Kousgi: Our focus will remain largely on salaried. Having said that, this mix of 70 and 30, I think, could be maintained for some more months. There could be slight variance going forward depending on the need. But by and large, this mix would be maintained. So, our focus would be primarily, see it is like this, it also depends on geography. If it is south, we are more focused on salaried. If it is north, we are okay to slightly focus on SENP as well other than salaried because these are good geographies. So, we have a strategy which is carved out geography wise, and based on that, we maintain the mix to ensure that our risk is quite low.

Sanket Chheda: Thank you so much, all the best for continued outperformance.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financials. Please go ahead.

Amish Kanani: Sir, we have a branch base of around 180 and we are planning to take to, you are saying maybe add 10 branches, probably 200. So, if you can just elaborate mix of where our next branch expansion is? Is it the 20% growth is contingent on the branch expansion or how is the strategy in the medium term?

Girish Kousgi: We are currently at 196, so four more to go this financial year. Yes, whenever we talk about growth, there will be some growth coming in from expansion, which may not be that much relevant for this financial year because we have already reached the 196 count. But going forward, whenever we told branch expansion, there will be some amount of growth coming in from new branches. But to a large extent, we would expect from existing branches because of improvement in productivity, and we have opened a lot of branches in the last two years and they are now delivering. So, it will be a mix of all. Old branches, recently opened branches, and the branches which are going to open in near future.

Amish Kanani: Okay, and Sir, there seems to be a focus on this non-metro stuff. Are we opening the branches in non-metro in the same states we are? And how is the expansion?

Girish Kousgi: Yes. So, I would say same states because now we are present in many states. So, any expansion, we will be penetrating within the state. So yes, adding new state per se might be very less because we are present in all the critical states. So, any expansion will be in smaller cities within the existing geographies.

Amish Kanani: Okay, and Sir, what is our strategy on the portfolio sell down? Do we securitize?

Girish Kousgi: We do not have any plans to sell portfolio or buy portfolio.

Amish Kanani: Okay, because our growth is enough for our fund mix, right? And sir, this raising of fresh equity of 1000 Crores, was it contingent on the parent selling stake? And is it on the card? Or it is independent of that?

Girish Kousgi: The company had planned to raise capital, so we stay focused on that plan.

Amish Kanani: Thanks Sir and all the best.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua: Thanks for the opportunity and congrats on the good set of numbers. So most have been answered. Just one thing on the CLSS subsidy. What is the outstanding exposure towards the PMAY schemes? I mean, as in, what is the percentage of book towards the PMAY?

Prashanth Joishy: Madam, this is Joishy here.

Ritika Dua: Yes, Sir.

Prashanth Joishy: As of now, as we told last quarter, it is around 145 Crores in subsidy. It is an ongoing process as such, and average ticket size being 18 lakhs. Virtually most of the loans will come under that category, which are sanctioned after the cutoff date, that is June 2017 onwards. It is an ongoing process. Now they have made it as the online portal where we are, goes on uploading the process and sanctions. So, you can take into consideration whatever the book growth has been taken place after 2017 onwards to the extent of around 75% will qualify for that category.

Ritika Dua: Sir, because the question here is that, then when we see for the other affordable housing finance companies, say, like an example, maybe a group finance, they have been showing this repayment for quite some time. So, any particular reason that why are we showing these repayments because I have not seen or if I am wrong, at least I have not seen any spike in any particular quarter, which was because of this? So if I am wrong, please correct me there, and if that is not the case, then why are we seeing the repayments on the subsidy now because generally they have to be given in the span of three months, right, since the loan sanctioned and then generally, what HFCs tell us that, it takes three months for the borrower to get that subsidy, you are getting the subsidy from NHB and eventually passing it on to the borrower.

Prashanth Joishy: Yes, that three months, what you referred, madam is, we have to submit the claim within six months from the date of final disbursement. If we are trading it on piecemeal basis as for the pro rata basis, then it goes on a spread period as the loan is getting disbursed. So, because we are disbursing and it goes on uploading from the 2017 cutoff data as such, we have some data connections with interest to match with their requirement. So that process has taken. Now we are an online basis and the inflow has increased. Not that it is not coming, the volume was small at the range of around 15 Crores, 20 Crores every month, on a quarterly basis which is around 30 Crores, 35 Crores. Now it has reached around 45

Crores to 50 Crores per month. Again, this month also, it has gone to the extent of around 60 Crores, 65 Crores. Over a period of time, this goes on increasing and we are getting the subsidy as such. So, you can see that variance in last quarter onwards. That is why you can feel that there is some IUM has gone down on account of that.

Ritika Dua: Okay, sure, Sir. And the second question would be on the Opex front. Is there a one-off in the Opex this quarter, especially on the staff side?

Prashanth Joishy: No.

Ritika Dua: Okay, and so, if you could kindly explain the jump in the absolute quantum?

Girish Kousgi: We have added people. So comparative to the last one year, we have added people. So that will start delivering results in next few quarters.

Ritika Dua: Sir, this was just a follow-up actually on the same Opex front. On the staff expenses, could you just guide how the run rate should look like? Should we expect the same run rate?

Girish Kousgi: Same run rate means what? What do you mean by same?

Ritika Dua: Like in terms of the absolute cost, if we are to keep adding. So, would the staff expenses look similar, on an absolute basis?

Girish Kousgi: Yes, this increase is only because of increase in manpower count, which will ensure that we will be able to grow our business. So, in terms of growth percentage, it will by and large remain the same.

Ritika Dua: Sure, Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Anirban Sarkar from Principal India. Please go ahead. Sir, it seems like we lost the connection from Mr. Sarkar. We move to the next question from the line of Jaikishan Parmar from Angel Broking. Please go ahead.

Jaikishan J. Parmar: Thanks for taking my question. Actually, my question is related to the loan mix. At the moment, like we have almost negligible bidder loan book, which is like hardly, absolute terms 7 Crores. So, I just wanted to know, do we have any plan or thinking to raise even bet like 1% or 2%, so that it can support the NIM? And that is one, and second, up to what level we are comfortable to increase our mix in nonsalaried class, up 30%, 35%? What level we are comfortable?

Girish Kousgi: On the developer front, we do not have any plan because we do not really operate in that space. So today, 7 Crores in terms of percentage, if we talk, it would not cross maybe 0.4%, 0.5%, I am talking over next two to three years. As of now, there is no plan. So definitely not in terms of 3%, 4% or even 2%. B, in terms of non-home loan, we are at 5% today if we talk only about LAP. I am just excluding top-up because top-up is part of home in terms of the behavior. So, in next three years, we may at most double. So definitely, this number would not go beyond 10% to 11%. We do not want to grow beyond that level for non-home, and while we say this, in non-home, the way we do business is different compared to what the market does, and therefore the risk is absolutely low, the way we do business. So, it is not a like-to-like comparison. But in terms of percentage, maybe next three years, this could become maybe 10%, 11%. Definitely not more than that, not 30%, 35%, no, we do not have the plan.

Jaikishan J. Parmar: So, CMP will remain at about 30%.

Girish Kousgi: Yes.

Moderator: Thank you. The next question is from the line of SivaKumar K. from Unifi Capital. Please go ahead.

K. SivaKumar: Thanks for the opportunity. Sir, in your opening remarks, you had mentioned that you would be seeing an improvement in the asset quality over the next couple of quarters. So, on an absolute sense, would we be seeing a decrease in the GNPL? Is that what you are hinting at?

Girish Kousgi: Yes, you can see both in terms of percentage and also in terms of absolute value. I would not be able to comment to what extent. But definitely, you will see asset quality improving Q-o-Q, at least the next few quarters.

K. SivaKumar: Right. Sir, and in one of your recent media interviews, you had referred to raising 1000 Crores by March. But with capital adequacy at 22%, are you still very particular about raising that much quantum of money within the next three months? Or would you revise those time lines and the quantum?

Girish Kousgi: The time lines could be next three to six months' time, but definitely, we will raise capital and not because of our capital adequacy ratio, which is very comfortable, but it is because of the leverage ratio, and therefore we want to raise capital.

K. SivaKumar: So, what is the leverage ratio you were aiming at when you say you want to draw comfort from a lower leverage?

Girish Kousgi: As of now, it is 8.7%. We want to be below that.

K. SivaKumar: Right, Sir. Is it request from the banker side or it is an internal guideline?

Girish Kousgi: It is our internal guideline, it is our strategy.

K. SivaKumar: Right Sir, thank you.

Moderator: Thank you. The next question is from the line of Manav Vijay from One-up Financial Consultant. Please go ahead.

Manav Vijay: Sir, my question is very simple to you is that, we are having an ROE of 20%, our CAGR is already 22%, and within our loan book, we do not have any chunky accounts, bad accounts, our growth is very stable, I mean, our ATS is just 18 lakhs. So apart from this, this leverage factor, which you want to, let us say, keep below 8x, is there any specific reason to raise this QIP because if you would not increase the growth rate, which you said you would not over the next two years, then this QIP money is going to ultimately dilute to a 20% ROE?

Girish Kousgi: Okay. Very intelligent question. I think the call what we have taken is that we need to raise some capital. I will leave the ratios for experts to work out like you. We will stay focused on doing business, and certain key ratios we need to keep under check, and therefore we want to raise capital to a certain extent.

Manav Vijay: So, what would be our comfortable leverage, let us say, which you will maintain overall, let us say, over a long period of time?

Girish Kousgi: We do not have any particular number in mind, but yes, currently, it is 8.7%. So obviously, if you raise some capital and looking at our growth and borrowings, it should be a little less than what we are currently at.

Manav Vijay: Thank you.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: Yes. So, this is Hitesh Gulati from Haitong. Sir, can you just quantify the growth in disbursements in Karnataka in this quarter?

Girish Kousgi: Just give me a second. So, if you look at the incremental sourcing, entire Karnataka would be about close to 9%, 10%.

Hitesh Gulati: Okay, Sir. This is the disbursement growth rate?

Girish Kousgi: This is disbursement. Yes.

Hitesh Gulati: Great, and Sir, on NHB borrowing, so what is the cost of borrowing from this channel?

Girish Kousgi: NHB borrowing in terms of percentage in Q3 was 15%.

Hitesh Gulati: Sir, what would be the cost of this borrowing? What will be the cost?

Girish Kousgi: It will be blended cost. For various schemes, we have different, different costs. So, it will be less than 7%.

Hitesh Gulati: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Ayushi Somani from SBI General Insurance. Please go ahead.

Ayushi Somani: I just wanted you to throw some light on your ALM profile, like in six months bucket, six months to one year bucket?

Prashanth Joishy: Yes, madam, this is Joishy here. See, the ALM as such, as of now, regarding the liquidity, we are comfortably placed. With the documented by line of credit facility our commitment up to July is already in hand. That means we have a liquidity to take care our commitment up to July. Going forward with the process of closure of existing term loan, refinance projects, we can able to raise the funds. As you can see, the capital adequacy is 22 Crores, liquidity is as I answered to one of the parties earlier, we are having documented unavailed limit of around 4000 Crores and approved sanction which we are yet to document is to the extent of around down 1650 Crores. So, this will comfortably throw you where we are placed in the liquidity and ALM position as of now.

Ayushi Somani: Okay. So, is there any mismatch in of one-year bucket except the Sberbank line and sanction lines?

Prashanth Joishy: Mismatch will be on the positive side because the liquidity is more.

Ayushi Somani: Okay, thank you.

Moderator: Thank you. Next question is from the line of Anirban Sarkar from Principal India. Please go ahead.

Anirban Sarkar: Thanks for the opportunity and congrats on a great set of numbers. My question is on the liabilities funding mix again. So, while we see that the mix of bank borrowing has gone up significantly in the quarter. Just a bit of trying to work it out since, I mean, if you could throw some light on what portion of your market-based borrowing or bonds and NCDs mature over the next there to six months? And what is the thought process on replacing them? Is it going to be with bank borrowings? Are you going to come to the bond market again? And what could the liability mix look like? I mean what is your internal cap on the proportion of bank borrowings and additional borrowings in the next three to six months? What are you thinking of this?

Girish Kousgi: Let me tell you how the mix looks today. Banks is 57%, NHB is 15%. So, banks 57% would more or less remain the same or maybe slightly come down. NHB could slightly go up. Market today, we are at 26%. So, this could slightly go up. Today, NCD and CP is 17% and 9%. So NCD, we would be replacing if you are talking about next three to six months' time. But by and large, the number would remain the same, and for deposits, there will be a slight increase in deposits. So, the mix would, by and large, remain the same with 2%, 3% variance here and there. So, banks would slightly come down and NHB would go up.

Ayushi Somani: Fair enough, and if I can ask a follow-up on that. the NCDs that are getting replaced, what is the difference in the cost of borrowing on them? So how are they getting repriced?

Girish Kousgi: We will have to discover that. Definitely, our attempt is to, as of now, I think for everyone NCD would be at a higher cost, so we are very, very particular about cost, and we want to raise at a lower cost. So, there will be some difference, but that would not be significant.

Ayushi Somani: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: Can you please share some details of NPLs across the salaried and self-employed categories? And how this has changed?

Girish Kousgi: Okay. Our overall is 0.8%. If you see a split between salaried and SENP, the difference would be about, as a profile, SENP is more than double of salaried. So actually, it is a combination. So, if you are talking about profile, definitely, SENP is, there is some kind of stress in the market, and therefore our focus also has been a little low on the profile as such.

Ashlesh Sonje: Okay, and any color on asset quality by geography?

Girish Kousgi: We do not see much of a difference geography-wise. It is more to do with products and the profiles.

Ashlesh Sonje: Thank you.

Moderator: Thank you. The next question is from the line of Dhagash Shah from CD Equisearch. Please go ahead.

Dhagash Shah: Thank you for the opportunity again. As our loan book is mostly granular, why are we not aggressively looking at housing loans going ahead?

Girish Kousgi: In terms of growth?

Dhagash Shah: Yes, Sir.

Girish Kousgi: I do not see because there is a lot of pain in system today. Demand is quite strong in certain segments, that is affordable segment, but not in all the segments. Even in affordable, the demand has come down, but available demand is good enough for players who are doing business. Now, I think next six to eight quarters is not the right time to push pedal on growth. While we say that, we want to definitely grow much above industry growth rate. Anything more than 20%, we feel in this market, at least for the next two years would be detrimental to the quality of the book, and therefore, we do not want to grow.

Dhagash Shah: Okay. So, if that is even with our granular distribution because some of the industry players are growing at 20%?

Girish Kousgi: It is like this. If we have to grow more than 20%, I will have to somewhere agree for a lower spread. So, we want to balance all the three: Growth, profitability and quality. Definitely, we can grow more than 20%, and if we grow more than 20%, I cannot maintain the same spread and NIM, which we do not want because obviously we want to do business, keeping profitability in mind.

Dhagash Shah: And Sir, just 1 more data point. What is the share of corporate loans?

Prashanth Joishy: 0.

Dhagash Shah: So, no loans to corporates?

Girish Kousgi: No loans to corporate.

Dhagash Shah: Alright, thank you so much Sir.

Moderator: Thank you. The next question is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: Good morning and thanks for the opportunity. Sir I have two questions. One is with respect to this stake sale announcement and the retrackment of that announcement, apart from the possible change in ratings how else would this impact your business? So, your ratings would impact your liability profile and your liability rating, your liability pricing and that will have an impact on the NIM? So that is question number one. On the geographic concentration of the book, can you please tell us what are the top three states that your book has exposure to and what is the contribution of each?

Girish Kousgi: On the stake sale, I would say there is no impact because we are always focused on performance and growth. As far as the company is concerned, I would say there is no impact. On geographical concentration, our south book is close to about 70% and the rest would be 30%. So, within south, the top three would be obviously all the states except Kerala.

Saurabh Dhole: Okay, and what are the contributions of each of these three states?

Girish Kousgi: As I mentioned, in terms of incremental, Karnataka is about 10%, then AP is about, so at the portfolio level we are at 70% in south. Incremental level, south is quite low because we are trying to diversify that by focusing on the salaried segment in other geographies. So, at the portfolio level, 70% is south.

Saurabh Dhole: Okay and you are not disclosing on a portfolio level the stock contribution of each of these states. Incrementally, I understand Karnataka is 10%. But on a stock basis, what is the exposure to Karnataka, Tamil Nadu and AP?

Girish Kousgi: On a portfolio basis, Karnataka is about around 25%, 26%, and AP would be much close to that, and TN would be about 30% lower than exposures in Karnataka.

Saurabh Dhole: Sorry, I did not get this. TN would be?

Girish Kousgi: TN will be much lower than AP. Karnataka is about 25%, 26%. AP is about again 19%, 20%. TN would be about 13%, 14%.

Saurabh Dhole: Got it Sir, thank you.

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

Akshay Ashok: Very good set of numbers, sir. I have two questions. That you are moving to Tier 2 and Tier 3 cities, will you maintain the customer categories, say, like salaried percentage and nonsalaried percent around the same, even in these Tier 2, Tier 3 cities, which you are planned on going? And will your yields improve because of that? And the second question I wanted to ask is about the SBI. They had introduced this product RBBG, Residential Builder Finance and Buyer Guarantee, for affordable housing projects so where they have a deal with the builders. So do you see some kind of competition from this? And are you planning on having an alliance with any of these builders in the future?

Girish Kousgi: We have been present in small cities, Tier 2, 3 and 4. So we are there since last many years and that would continue, and that would help us to maintain the customer profile. So, there is no change in customer profile per se. What we were doing five years back is back now and maybe two years in future. So, there is no change in the profile. Answering your question on tie-up by SBI, see the market is very big, huge. There is a lot of opportunity. I do not think, any which ways we are not competing with banks because our rates are different and banks price differently. So, we are not there in that space. Even today, many banks are funding to affordable segment, which means the profile is by and large the same. But the pricing will be different because the institution which is offering is different. It could be HFC, it could be bank. So, I do not see that, that would impact us per se.

Akshay Ashok: Okay, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Karan Rathod from AEM Fund Advisors. Please go ahead.

Karan Rathod: Thank you. My questions have been answered.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity Sir. Excellent numbers. I have been a very long-term shareholder, and this is the fourth set of management that I am looking at, and all of you guys have stuck to the DNA of the company. It is very heartening to see the performance. Sir, my questions have been answered. I just had one question. There were certain appointments which were expected. One was, I believe, a CEO, another was a CRO. Any progress on that side? That is my first question. The second is on the fundraising Sir. Would you take the QIP route or will you stick to the old method of doing the rights issue? And in that rights issue, is there any indication from Canara Bank, whether they will participate or not? Thank you very much Sir and good luck for the next quarter.

Girish Kousgi: Thank you so much. In fact, I am the CEO. I just joined a few months back. I am the MD, CEO for CanFin Homes.

Agastya Dave: Sorry, I said CEO. I meant the CRO, sir, the Chief Risk Officer.

Girish Kousgi: We have a CRO. We have a CRO in place.

Agastya Dave: Right.

Girish Kousgi: So, there is no hiring, which is pending.

Agastya Dave: No incremental hiring, which is pending. Okay. Fine Sir, and Sir, on the fundraising side, sir, whether it would be a rights issue or QIP?

Girish Kousgi: We are evaluating at this point in time, so we will disclose at the right point in time.

Agastya Dave: Perfect Sir. Thank you very much Sir. Good luck Sir.

Moderator: Thank you. The next question is from the line of Sunny Gehani from Birla Sun Life Insurance. Please go ahead.

Sunny Gehani: Great set of numbers. I just had one question. What percentage of the portfolio is under the subvention scheme by developers?

Girish Kousgi: Nil.

Sunny Gehani: Thanks, is great Sir. Thank you.

Moderator: Thank you. The next question is from the line of Subhradeep Mitra from UTI Mutual Fund. Please go ahead.

Subhradeep Mitra: I was looking at the liquidity position that you have provided on slide #11 of the presentation. Sir, there is a line called future borrowings, which says 1500 Crores for March 2020 and then 2000 Crores for June 2020. Sir, what is the surety of the future borrowings because if I remove that line, then you were running a negative mismatch from Q1 of FY2021?

Girish Kousgi: Every month, we will have repayments to make, and every month we will raise funds. So, we have been doing that for last so many years. I mean, the performance of the company is actually improving. So, I do not see any reason why we would not be able to raise that kind of funds in future.

Prashanth Joishy: And just to substantiate that we have already given an answer to earlier question where we have unavailed documented bank limit to the extent of 4000 Crores, which will already take care in your Q4 as well as Q1 of next, and further, whatever is maturing, yes, we have to go for the NCDs as per the SEBI norms that is also in the offing. We have the bank sanctions, what we have been sanctioned in the yesterday's board meeting, that is to the extent around 1600 Crores. That will take care of what we have presented that to the extent of 1950 Crores, plus 1800 Crores and 1900 Crores.

Subhradeep Mitra: Okay, so basically, what you mention is that, the unavailed limits that has been mentioned 4137 Crores in that opening balance, so that is sanctioned, but not yet that drawn down, but the 1500 Crores that you mentioned is not yet sanctioned, but it is in the process of sanctioning?

Prashanth Joishy: That is all.

Subhradeep Mitra: Okay, sure. Thank you, Sir.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to the management for closing comments.

Girish Kousgi: Thank you very much to all the investors. You have been really supportive in terms of staying invested in this company. We have shared our plans, vision, and going forward we would try to maintain the same level of performance. Thank you very much.

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