Can Fin Homes

Operator: If you'd like to ask questions after the presentation concludes, or if you need any assistance during the conference call, please signal to me, Swapna, by raising your virtual hand. Please note that this call is being recorded. I now hand the conference over to my colleague, Nitesh Jain from Investec. Thank you, and over to you, Nitesh.

Nitesh Jain – Investec: Thank you, Swapna. Good afternoon, everyone. Welcome to the Q1 FY27 earnings conference call of Can Fin Homes Ltd., hosted by Investec Capital. We will start with management commentary, followed by a Q&A session. To discuss the financial performance of Can Fin Homes and to address your queries, we have with us Mr. Suresh Iyer, MD and CEO; Mr. Shailesh Kumar Singh, Deputy MD; Mr. Prakash, President; Mr. Uthaya Kumar, President and CRO; and Mr. Abhishek Mishra, CFO of Can Fin Homes Ltd. Please note that this call is being recorded. I would now like to hand the call over to Mr. Suresh Iyer for his opening comments. Over to you, sir.

Management: Good afternoon, everyone. Thank you, Nitesh, and welcome to this earnings call for the Q1 FY27 performance of Can Fin Homes. I will start by providing a brief summary of the performance highlights. These are covered in the investor presentation, but I will provide some commentary on these aspects before we open the floor for questions.

I will start with disbursements. We had provided a guidance or projection that we would do 2,500 crores in Q1, 3,000 crores in Q2, 3,500 crores in Q3, and 4,000 crores in Q4. Against the 2,500 crores planned and projected for Q1, we have achieved 2,609 crores. We have been able to exceed our original projections. This was possible due to positive growth across all our geographies. We have six zones, and all six zones, including Karnataka and Telangana, showed positive growth. Karnataka, with 18% growth over Q1 of last year, was actually the lowest in terms of zone-wise growth. We have seen growth across all geographies. Additionally, we had a positive contribution from the sales team and from the new branches opened after March 2023, which helped us achieve this disbursement.

In terms of a breakup of this growth, both the salaried and self-employed segments have grown compared to the corresponding period last year. The salaried segment grew by 21% in absolute terms. The overall growth for the quarter was 29%—against 2,015 crores in the previous year, we did 2,609 crores this quarter. Within that, the salaried segment grew at 21% and the SCNP (Self-Employed Non-Professional) grew at 44%. Similarly, breaking it down between housing and non-housing, the housing segment in Q1 FY27 grew at 28% compared to Q1 of last year. The non-housing segment (NHHL) grew at 32%, resulting in a combined growth of 29%. Basically, across the 2x2 matrix, there has been growth in all four components.

The challenge, however, has been that prepayments or run-downs have been slightly higher compared to Q4 of last year. One of our expectations was that after the conversion from an annual to a quarterly reset, we might see a reduction in BT (Business Transfer) outs. However, this has not happened. Against a ,1730 crore run-down in Q4 of last year, we had a run-down of 1,857 crores this quarter—an increase of almost 127 crores.

When you break down that run-down, the BT outs, which were 400 crores in Q4 of last year, increased only marginally to 408 crores. So, there was no major increase in BT outs. Similarly, loan closures other than BT outs—where customers closed loans from their own funds, sold property, or where we initiated sale under SARFAESI—increased from 360 crores in Q4 to 377 crores. Neither of these increased substantially.

What actually increased, resulting in a higher run-down, were part-payments and amortization. When the reset changed from annual to quarterly, most customers were under a tenure-change option. The EMI remained constant and the tenure shortened. When the interest rate was passed on by 0.5%, the tenure crashed while the EMI stayed the same, meaning a higher proportion of the payment went toward the principal. Part-prepayments and amortization went from 976 crores in Q4 of last year to 1,072 crores this quarter. This is the main reason why the run-down has been higher, and we will have to work on this aspect.

Regarding AUM growth, last year we had an overall AUM growth of 10.4%. In Q1, it has inched up to 10.8%, although we reported it as 11%. This was due to the approximately 755 crores added to the book from disbursements net of run-downs. We projected 2,500 crores in disbursements and anticipated a full-year run-down of 7,000 crores, which is approximately 1,750 crores every quarter. This quarter's run-down was 1,857 crores, about 100 crores more than anticipated. However, this was offset by disbursements being 109 crores higher than the 2,500 crore projection. Net-net, the numbers are in line with what we projected for Q1. We continue to target 14% AUM growth for the full year, meaning we will need to push for slightly more disbursements every quarter to offset the higher prepayments.

Next, regarding spreads and NIM (Net Interest Margin). At the end of Q4 last year, we indicated that a large portion of the portfolio moved from annual to quarterly reset and benefited from interest rate reductions, plus a January 2026 rate cut of 15 basis points. We expected our yield to come down to 9.81%, which we have been able to sustain throughout the quarter. Against that, we indicated our cost of borrowing would be 6.99%, but it ended at 6.98%. We brought the cost of borrowing down from where it was on April 1. This happened because we repaid some high-cost NCDs and timed our CP (Commercial Paper) fundraise appropriately.

We did raise one term loan at 7.25% during the quarter, but none of the older borrowings saw rate revisions because there was no repo revision. All our term loans are linked to T-bills or the repo rate; nothing is linked to MCLR. Our spread is 2.83% against the 2.81% we indicated at the start of the year. Consequently, our NIM is 3.81%, against our guidance of 3.75%. We have significant sanctions on hand from banks, and while NCDs and CPs are available, banks are currently our cheapest option besides short-term CPs. We also have an application with NHB. We are confident we can maintain the spread and NIM at 3.8% plus because of opportunities to improve product and segment mix.

Regarding delinquency and NPA, Stage 2 and Stage 3 delinquency decreased in absolute value compared to March 2026. While there was a marginal increase of about 17-18 crores in NPA, it was more than compensated by the reduction in SMA 1 and SMA 2. Consequently, our credit cost is marginal and lower than last year. For the last six quarters, our NPL ratios have been decreasing, and we don't see an increase in delinquent accounts. We are confident we can maintain our credit cost guidance of 10 basis points. That is a brief highlight of the performance. I now open the floor for queries.

Operator: Thank you, sir. Participants, please raise your virtual hand and I will unmute you. Please introduce yourself before asking your question. The first question is from Shripal Doshi. Shripal, please go ahead.

Shripal Doshi: Hi, sir. Thank you for the opportunity. My first question is about the macros, which have been tough and remain uncertain. While our asset quality indicators remain resilient, how do you see that playing out over the next 3-6 months? Have we changed any underwriting norms or processes in the last two to three months? Regarding customer profiles, have there been any filters or changes in what we do or don't do? Any particular trends in the salaried or self-employed segments regarding rejection rates?

Management: Thank you, Shripal. Regarding macros, we are not seeing a slowdown in demand across geographies. We aren't seeing major issues in project launches either. In Q1, we added another 60 APF (Approved Project Financial) projects. We went from 271 approved projects to 331 approved projects at the end of the quarter. Regarding interest rates and liquidity, our partner banks have shown a willingness to sanction loans, and we have received a couple of large sanctions.

In terms of interest rates, they have slightly gone up. Incremental borrowing from banks has moved from 6.95% last year to between 7.25% and 7.5%. To offset this increase in incremental borrowing costs, we have tweaked some internal guidelines. For example, the special rates we were offering for loans over 20 lakhs have now been moved to 25 lakhs plus. This allows us to get a slightly better yield on the 20-25 lakh bucket.

We also re-evaluated customer re-rating. We added additional parameters and EWS (Early Warning System) signals. We added more monitoring of OTMS reports so we can take corrective action early. Regarding credit scores, 82% of our loans now have a CIBIL score of more than 725, up from about 75%. Customer selection has improved. Since 80% of our customers come through the DSA channel, logins only happen when they fit our norms, so we don't have massive data on rejection rates increasing, but these are the changes we've made. Our NACH bounce rates have come down over the last six quarters. We've also worked to convert older cases where NACH was not present into NACH. This has improved overall hygiene.

Shripal Doshi: Thank you for the detailed answer. My second question is about IT. We were supposed to complete the implementation of LOS, LMS, and report generation this quarter, and I believe the pilot was completed. When will the full implementation happen, and do you see any impact on business or disbursement targets in Q2 or Q3?

Management: We did a pilot in 5 branches. There were some teething problems, but nothing that impacted business. We implemented all of them on July 8. It has been 12 days, and all five branches have processed all transactions, including sanctions, disbursements, customer creation, NACH processing, and EMI collections. We have not had any showstoppers. We plan to implement this across the remaining 245 branches in the current quarter.

This implementation has to happen at month-end to compare and migrate data. We did the July 8 implementation based on June 30 data. We will do the next tranches based on July 31 and August 31 data. We will be finished with all 250 branches before the next earnings call. Based on the five-branch experience, we don’t envisage business problems. Those branches are on track to end

July with similar or better business than June. Integrations with internal and external APIs are functioning well.

Shripal Doshi: Understood. Thank you very much, and good luck for the next quarter.

Operator: The next question is from Rajiv Mehta. Rajiv, please go ahead.

Rajiv Mehta: Thank you for the opportunity. Regarding the IT implementation, what was the experience in returning to normal business volumes for those five branches? Are they already back to normal productivity?

Management: Yes, as I mentioned, we implemented it in July based on June data. Twelve days since implementation, we are on track for the month. There are small issues, but nothing major. Disbursements have started in all five branches. We are confident we won't have major issues. While it was easier to give individual attention to five branches, the product delivered is stable. It takes the staff about three to four days to get the hang of the system.

Rajiv Mehta: Are you targeting a specific business number this quarter, given the bandwidth required for this implementation? Can you maintain the run rate from June despite the transition?

Management: We are confident that the 3,000 crore target stays. We plan to come back in September, either via a press release or a conference call, to provide an update on how the implementation tranches in August and September have progressed. But the target for Q2 remains 3,000 crores.

Rajiv Mehta: One last thing on pricing. The proportion of loans over 30 lakhs and in the 50-100 lakh category is going up in the AUM. Since they are contributing more to growth, what is the pricing here compared to the overall blended pricing?

Management: The blended yield is 9.81%. For a salaried customer with a CIBIL score above 725 looking for a loan of 25 lakhs plus, the best rate is around 8.4%. It can go up to 11% depending on the customer profile and risk rating. The highest rate would be for a non-salaried, non-housing customer with an S3 rating. The range is 8.4% to 12.5%, but the blended yield is 9.81%.

Rajiv Mehta: Thank you and best of luck.

Operator: The next question is from Subhranshu Mishra. Subhranshu, please go ahead.

Subhranshu Mishra: Thanks. Hi, Suresh. A couple of NBFCs have spoken about disruptions in IT sector hirings, especially at entry and mid-management levels. Since we have large exposure to the outskirts of Bangalore and Telangana, are we seeing any changes in off-take in the IT sector? Secondly, can you provide the number of home loans and non-home loans for this quarter and the expected run rate? Finally, are there any surprises expected in OpEx for FY27?

Management: Regarding the IT sector, we haven't seen a major impact on demand. Karnataka grew at 18% and Telangana at a slightly higher rate. While there are job losses in the sector, mid-management professionals are re-equipping and finding different jobs. Our Karnataka delinquency is actually lower in absolute value as of March 2026 compared to March 2025. In June, we saw a very marginal increase of only a few cases.

Regarding the number of loans, I don't have the account count right now, but I can share the amounts. In Q1 FY26, we did 2,015 crores, of which 1,291 crores was HL and 724 crores was NHL. In Q1 FY27, we did 2,609 crores, with 1,650 crores in HL and 958 crores in NHL. This represents 28% growth in HL and 32% growth in NHL year-over-year.

Subhranshu Mishra: And the third question was about OpEx and APF projects. What is the maximum number of apartments we can fund per project, and when does this contribute at least 15% of disbursements?

Management: Regarding OpEx, there are no major surprises. We still have some capitalization happening in July which will reflect in depreciation. Some expenses, like AMCs (Annual Maintenance Contracts), have kicked in. About 5-6 crores of project expenses already appeared in Q4 of last year. Rent, taxes, and salary costs are under control. The OpEx is in line with last year.

For APF, we can consider up to 100-150 units per project. We have added 60 APF projects this quarter, bringing the total to 331. Often, the builder gives first right of refusal to the lender who provided project finance. We are currently being tested by these builders, so the contribution is small. A 15% contribution is still a while away, but we are seeing a regular trickle. From a risk perspective, we will never exceed 10% exposure in a single project.

Operator: The next question is from Abhijit Tibrewal. Please go ahead.

Abhijit Tibrewal: Sir, I heard you mention that as incremental borrowing costs move up, you've moved the special rate threshold from 20 lakhs to 25 lakhs. Don't you think that as we move up in ticket sizes, we face higher competition from large HFCs that are now targeting the 25-35 lakh sweet spot?

Management: Actually, banks aren't the primary players taking our portfolio. Our main BT outs happen to LIC and Bajaj. It is the private sector and larger HFCs that are the primary competition. Very rarely is a bank our number one competitor in a specific geography. So far, those players haven't made a major dent in our business. Our BT outs have remained stable at 408 crores this quarter compared to 400 crores in Q4.

Abhijit Tibrewal: What proportion of our salaried customers are in the IT sector? What are their ticket sizes and annual income like? I'm trying to understand which IT customers go to banks versus coming to us.

Management: Our IT sector exposure is only about 6% of our customer base. Our customers generally do not come from top-tier companies like Infosys, Wipro, or Cognizant; we serve smaller IT-related entities. So far, we haven't seen a major impact, and our NACH bounce rates are actually decreasing.

Abhijit Tibrewal: So you are still targeting 13,000 crores in disbursements this year, despite the higher anticipated run-down, to reach 14% AUM growth?

Management: Yes. If required, we will push business. We overshot our Q1 target and are looking at 3,000 crores for Q2. We intend to reach a net accretion of 6,000 crores to the book by year-end. If that means pushing disbursements to 13,200 or 13,400 crores, we will do that.

Operator: The next question is from Kunal Naltokas. Please go ahead.

Kunal Naltokas: Is it correct that since 2001, Can Fin Homes has written off only about 20 crore rupees in total loans? If so, what culture or process makes it possible to have such low write-offs?

Management: To clarify, the 20 crore figure refers to credit write-offs. It doesn't include the 40 crore fraud in Ambala, which was a non-credit issue. In terms of credit, there are two components. First, we have frauds and delinquent cases where we have 100% provisioning, but we don't write them off. They continue to reflect as NPAs in our books while we pursue recovery via SARFAESI or legal action. Our 375 crore NPA figure includes these. If we had a policy of writing those off, that would be another 50-60 crores, and our NPA would sit at 310-320 crores. Second, the 20 crore figure represents actual write-offs where there was no property to sell or there was a small shortfall after a SARFAESI sale. Our conservative underwriting and tight policies have resulted in very safe lending, even if it has sometimes impacted our growth compared to market expectations.

Kunal Naltokas: Regarding the cost-to-income ratio, with the technology transformation and the move toward more in-house sourcing, how do you see that playing out?

Management: For the current year, we expect it to hover around 19.5%. It moved from 18% to 19% this quarter as project costs kicked in. As the book grows, the AMCs and depreciation will remain stable, so the percentage should begin to decrease. In three years, we aim to bring it back to around 18%.

Operator: The next question is from Sonal.

Sonal - Analyst: I'm looking at your book run-down numbers, which have been elevated for four quarters. Is this the new normal, or do you expect it to return to below 4%?

Management: Out of the 1,857 crore run-down, only 408 crores is BT out and 377 crores are closures using the customer's own funds. The major portion is amortization and part-prepayments. Customers are making extra payments to reduce their interest burden, which is good for them but hurts us. We are looking at solutions to retain these customers, such as converting them to deposit customers. We are also analyzing bureau alerts for when they make inquiries elsewhere so we can contact them.

The bigger issue is the interest rate differential. Previously, the gap between our best rate (8.95%) and that of larger players (8.4%) was 55 basis points. Now, as repo rates changed, that gap has widened to more than 1%, which is harder to justify to a customer. However, part-prepayment remains a larger factor than BT outs.

Sonal - Analyst: In terms of competition, Bajaj Housing is growing at 25-30% while you are at 11%. What trade-offs are they making to get that growth?

Management: Bajaj had a first-mover advantage with technology, giving them an edge in TAT (Turnaround Time). We are catching up with our IT transformation. We need to consistently achieve 20% plus disbursement growth for our AUM to catch up. LIC has the pressure of high prepayments because they compete directly with big banks for larger ticket sizes. A developer finance or LRD book would have less pressure, but we stick to our core segment.

Sonal – Analyst: Will your new IT platform allow you to launch higher-yield products in the 11-13% range?

Management: The system certainly gives us the opportunity to launch such products faster with proper controls and decision engines. We will look at these opportunities now that the IT transformation is implemented, though we haven't deliberated on specific new products at the board level yet.

Operator: The next question is from Prashi.

Prashi – Analyst: Last quarter, you indicated an aspiration for 2.4% ROA and 18% ROE. Are you still confident in achieving these for FY27?

Management: This quarter, we achieved 2.39% ROA and 18% plus ROE. While OpEx has inched up, the impact was already envisaged. We are maintaining our NIM and spreads. Regarding credit cost, while we usually see a 30-40 crore increase in NPA in Q1, this year we restricted it to 17-18 crores. We are in a better position, and the 10-basis-point credit cost guidance doesn't look like a challenge.

Prashi – Analyst: Regarding the SCNP segment increase, how does it compare to the salaried segment in terms of yield and credit cost?

Management: Our SCNP segment is not "assessed income"; they have documented IT returns for 2-3 years. The ROI for self-employed is about 0.5% higher than salaried housing. The GNPA for salaried is around 0.63%, while SCNP is around 1.5%. Factoring in the yield, the 0.5% spread makes it yield-accretive.

Prashi – Analyst: When will productivity benefits from the CBS platform and branch expansion reflect in the cost-to-income ratio?

Management: It will take about six months for the branches to fully stabilize and get used to the system. However, we are already seeing benefits in speed and TAT. We also intend to fulfill additional staffing needs for the sales team from within our existing team sizes rather than adding new headcount, which will help our costs. Finally, for the tax rate, we expect it to stay stable at 21% due to DTA (Deferred Tax Asset) benefits.

Operator: Thank you. That concludes today's session. I will hand the call over to Mr. Suresh Iyer for his closing comments.

Management: Thank you, Nitesh, and thank you to everyone for joining our Q1 FY27 earnings call. I hope we have addressed all your queries. If you have more, please feel free to write to us. We also upload meeting transcripts to our website for your reference.

As we mentioned, we expect to complete our IT transformation this quarter. We plan to provide an update in the first or second week of September regarding how many branches have gone live and our disbursement performance. We don't envisage any issues given the success of our first five branches. Thank you once again for joining the call.

Operator: Thank you everyone.