“LIC Housing Finance
Q3 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the LIC Housing Finance Q3 FY2022 Earnings Conference Call hosted by Axis Capital Limited. 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. Praveen Agarwal from Axis Capital. Thank you and over to you!

Praveen Agarwal: Thank you Stanford. Good morning everyone and welcome to this earnings call of LIC Housing Finance. We have with us Mr. Y. Viswanath Gowd, MD and CEO and Mr. Sudipto Sil, CFO to take us over through the results. In the initial round, we would request Mr. Viswanath to give us an understanding of the quarter gone by and then we will open the floor for Q&A. Over to you Mr. Viswanath!

Y. Viswanath Gowd: Thank you Praveen Agarwal. A very good morning to you all. A very, very good morning to all of you once again and I also welcome to the post earnings call of our LIC Housing Finance Limited. As you are aware, LICHFL declared its Q3 FY2022 results yesterday. Before beginning, I wish you and your near and dear ones a very, very happy and healthy New Year with our meeting first time in the current New Year.

This quarter under review witnessed a third wave of COVID-19 due to the Omicron variant, which resulted in intermittent restrictions in some parts of the country; however, the situation got normalized and now with the expectation of the pandemic receding, it is expected that the business activities will strengthen further in the Q4.

All key indicators have shown improvement during Q3 over the previous quarters. The finance highlights of the quarter are as follows:

Total revenue from operations Rs.5054 Crores as against Rs.4907 Crores for the corresponding quarter of the previous year with a growth rate of 3%. Outstanding loan portfolio stood at Rs.243412 Crores against Rs.220197 Crores as on December 31, 2020 reflecting a growth of 11%. Out of which individual home loan booked reported a growth of 15% and now it comprises 80% of the total portfolio. It is up from 77% one year ago.

Total disbursements for this quarter were Rs.17770 Crores as against Rs.16857 Crores in Q3 FY2021 with a growth rate of 5%. Out of that the disbursements in the individual home loan worth Rs.15341 Crores as against Rs.14511 Crores for Q3 FY2021 with a growth rate of 6%. Also we have achieved 135% of the pre-COVID levels in terms of Q3 disbursements when we compare it with Q3 FY2019-FY2020.

On the net interest income front NII was Rs.1455 Crores for the quarter as against Rs.1281 Crores in Q3 FY2021 showing a growth of 14%. Net interest margins for the quarter stood at 2.42% as against 2.36% in Q3 of FY2021.

Profit before tax for the quarter stood at Rs.961.85 Crores as against Rs.969.64 Crores. Profit after tax for the quarter stood at Rs.767.33 Crores as against Rs.727.04 Crores for the same period previous year reflecting a growth of 6%.

During the quarter under review disbursements continued its strong momentum even on a sequential and year-on-year strong quarter with the individual home loan segment, the disbursement growth is clocking 34% for the nine month period, the growth has been across all geographies especially in the south eastern, southern and western and also supported by north, central and eastern regions. The canvas of growth gives us lot of confidence of an overall pickup in economic activities as well as a strong and sustained rebound in the consumer sentiments.

In terms of asset quality, the stage 3 exposure at default stood at 5.04% Crores as against 5.14% as on September 30, 2021 reflecting a marginal sequential improvement in the same. Total provision as on December 31, 2021 is Rs.5715.76 Crores reflecting a provisioning cover of about 40% on stage 3. This includes Rs.327.21 Crores for COVID-19 related provisions.

Assets recategorized as NPA as per RBI notification dated November 12, 2021 are about Rs.2497 Crores and are placed in stage 1 and stage 2. ECL provision for the same is Rs.230.83 Crores. OTR during this quarter stood at about Rs.490.27 Crores. It is much lower than the Q2 figure of about Rs.2141 Crores.

We have continued to focus on collection efficiency and the same has shown consistently and then it has shown very good consistency and it stands at 99% for all the regular accounts. The overall trend in the collections and recovery side has shown improvements which gives us a confidence of reduction in coming months.

On the funding side, we have witnessed reduction in overall cost of funds by 7 basis points during Q3 FY2022 despite hardening in the bond yields during the same period and 24 basis points during the current financial year.

Incremental cost of funds stood at 5.27% for the quarter. Net interest margins for the quarter stood at 2.42% as against 2.36% over the Q3 of FY2020-FY2021. For this quarter under review, the interest income increased by 2.55% whereas the interest expenses declined by 1.37% leading to marginal expansion.

Project RED under digitization, transformation is progressing significantly with the launch of new projects like KYC and AML Solutions, deposits applications, and audit portal. More than one million downloads growths of our HOMY app have been so far and the company has approved more than Rs.13000 Crores worth of loans received through HOMY app.

With this brief introduction, I would like to invite you for your queries. Thank you.

Moderator: Thank you very much Sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: Thank you for the opportunity. I have four questions. The first one is on the margin, so the margin seems to have normalized this quarter. Wanted to check if there were any write backs or interest income reversals in this quarter and also how does the incremental asset yield look like versus your overall assets and I have also noted that the incremental funding cost has started inching up so any outlook on the margins that is one. Second on is on the asset quality, the stage 3 coverage has declined by almost 350 BPS to 40%. Is there a target level that you would like to intent to maintain? Third one is the growth, the LAP, LRD and developer loan books continue to contract so from here onwards would you intent to accelerate the disbursements and any outlook from here and lastly the data keeping just want to request GNPA by different segments and also outstanding book for restructured loans and ECLGS? Thank you. That is it.

Y. Viswanath Gowd: Actually as far as the questions are concerned of course me, and our CFO both will answer in part and all. Of course, I will tell about what you call business front if you are looking at, the growth what we are seeing now in the individual portfolio is really going on very well and then of course I agree developer book size, ours is not very much, it is only 6% to 7%. There what happened, lot of scope is there for us to expand in this quarter. We are having some positive outlook on the expansion further on the developer and also LRD books also. Then as far as the asset quality is concerned you are enquiring really now after this what we call last quarter especially momentum was good. In the sense people were not like in the earlier year of Q3 where movements were not that much and even this time what happened our teams also were in place to meet all the people and then recover the money and second what happened most of our loans are actually in the retail segment, mostly 80% of loans are there in the retail segment in that also more than 70% are in the salaried class. That is what happened regular income levels has helped a lot that is why our collection efficiency hovering around 99% regular and then more than 70% to 80% in all cases so with this thing what happened there was a very good recovery especially in the Q3 that gave us a lot of comfort and what happened, the provisioning levels were also maintained to meet all these requirements.

Sudipto Sil: Regarding to the other query pertaining to margins yes there has been an improvement in margins year-on-year and if you look sequentially also if you see the loan asset growth has been around 11% whereas the NIM growth has been around 13.5% so that has translated to a higher net interest margin. There is no one off here. In fact there was a reversal which was there in Q2 which is not there now but this quarter margins are reflected of the true income from operations and cost of funds. There are no one offs. Asset yield there has been a decline in the asset yield in the initial part of the financial year, but now it is stabilizing and from January we have also increased our lending rates, so that should help stabilizing the asset yields for incremental business. Incremental cost of fund has been increasing. As you were aware that there has been an overall increase in the cost of funds I would say the bond yields across the entire system in fact in GSEC also there has been a very sharp increase but till now it has not fully translated into the higher cost of funds. If you look at the construct of our liability you will find that about 60% to 65% of our liabilities are fixed rate in nature so that certainly allows us some advantage in an increasing interest rate cycle. Regarding the stage 3 cover that was another question that you had placed, if you now look at there has been substantial improvement in the coverage across including the stage 1, stage 2, and stage 3, so stage 1, stage 2 coverage has also increased and stage 3 coverage is also around 40% odd which at this point in time it is quite improved as compared to earlier position. Other queries regarding the growth MD Sir has already responded. Two more queries you had asked some data point, restructuring this quarter is only 490 Crores. Have I answered all your queries?

Rikin Shah: Sir GNPA by different segments?

Sudipto Sil: GNPA in the individual home loan segment is 2.1%, in the project loan it is 27% and in the non-housing commercial it is 15.9% in non-housing individual it is 9%, total coming to 5.04%.

Rikin Shah: Okay and Sir on the ECLGS outstanding book?

Sudipto Sil: What exactly you want ECL outstanding book?

Rikin Shah: So what is the total ECLGS disbursement we have made until now?

Sudipto Sil: About I think 1000 Crores or so.

Rikin Shah: Thank you very much. That answers all my questions.

Moderator: Thank you. The next question is from the line of Kushan Parikh from HSBC Securities. Please go ahead.

Kushan Parikh: Thanks for taking my questions. Just harping again on the NII growth basically if you could just give us some additional colour in the sense that if you could let us know what the reversal was in 2Q as well is there any improvement in yields that we are seeing in the individual housing side in the 3Q or any mix change. If you could elaborate whether we have done more of affordable housing at what period does the affordable housing loans come in actually, just wanted to better understand yield and NII improvement in 3Q?

Sudipto Sil: As I mentioned there has been reduction in the cost of the fund also in the third quarter despite the fact that there has been overall increase in the bond yields in the system, there has been improvement in the cost of funds that has also helped in improving the interest income collection. We have effected an increase in the lending rates also so that also should give some support and some stability in the asset yields going forward. As far as the interest income reversal you are talking about that actually was in the Q2 which had reduced the interest collect, in the revenue from operations. There is no reversal in Q3. Q3 is just normal quarter.

Kushan Parikh: What was the amount of reversal in 2Q?

Sudipto Sil: It was around 350 Crores. You can get more reference on Q2 call transcripts.

Kushan Parikh: Okay and there has been no change in individual housing yields for 3Q and no change in mix as well in terms of within individual housing to affordable or something like that?

Sudipto Sil: No affordable is different. Affordable is not from this year.

Kushan Parikh: Okay this is entirely coming out of the write back of interest reversal that had happened in 2Q and there are no changes in yield in 3Q. We have high rates in January only. Is my understanding right?

Sudipto Sil: Again I think you are mixing it up. There is no reversal in Q3.

Kushan Parikh: Yes so there was a reversal in 2Q which is not there in 3Q is what you are saying and no change in individual home loan yields for 3Q?

Sudipto Sil: No.

Kushan Parikh: If you could help me with the restructured book outstanding number for 3Q. We have done 419 Crores in 3Q. Just wanted to know what the outstanding number is now.

Sudipto Sil: Slightly more than 7000 Crores put together.

Kushan Parikh: That is all from my side. Thank you.

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

Abhijit Tibrewal: Thanks for taking this question. During your opening remark, I think you have specified this, if you could just elaborate the amount of loans which are in stage 1 and stage 2 but have been recategorized as NPA under the RBI circular?

Sudipto Sil: Yes we have already specified it in the opening remarks. Provision is also disclosed.

Abhijit Tibrewal: I wanted to know the amount of this. Provisions you have already disclosed in the presentation.

Sudipto Sil: I will just repeat in 2497 Crores.

Y. Viswanath Gowd: Roughly 2500 Crores you can say.

Abhijit Tibrewal: Second question I had what has prompted this change in provisioning policy during the quarter. What I am trying to understand is until last quarter we had something like three BPS kind of provision cover on your stage 1 and stage 2 loans and this quarter you have increased to about 36 basis points in Q3, so what has prompted the surging provisioning policy during the quarter?

Sudipto Sil: If you see the RBI notification of 12th November 2021 we have implemented and pertaining to that whatever will be the no show provision that is required, we have created that and we have kept it in stage 1 and stage 2.

Abhijit Tibrewal: Is there such a significant increase in credit risk from that RBI circular which has prompted this increase from 3 basis points to 32?

Sudipto Sil: 230 Crores. We have given the numbers also 230 Crores.

Y. Viswanath Gowd: Yes 230 Crores is the provision made for exclusively.

Abhijit Tibrewal: Sir lastly if you could just help us understand have been there some resolutions or repayment in the developer or builder book because the run off in that book during the quarter looks pronounced so any resolution?

Sudipto Sil: There have been some closures, some repayments have happened.

Abhijit Tibrewal: That was the quantum in that Sir?

Sudipto Sil: I think some 600 Crores, 700 Crores in totality. There have been some repayments.

Abhijit Tibrewal: Lastly you talked about increase in lending rates from January onwards by how many basis points you have increased your lending rates during January.

Sudipto Sil: It is about 10 basis points.

Kushan Parikh: Thank you Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Utsav Gogirwar from ICICI Prudential Life Insurance. Please go ahead.

Utsav Gogirwar: Thanks for the opportunity Sir. Just to continue with the previous question as per the website the interest rate is 6.7% is this the latest one after increase of 10 basis points or the new rack rate is 6.8%?

Sudipto Sil: No. It is the latest whatever you are seeing. 60.7% is some category but it is actually 675.

Y. Viswanath Gowd: Yes it is linked to CIBIL, lot of things are there in that, quantum wise and all.

Utsav Gogirwar: Sir second question is the rack rate for any particular kind of customer say 6.7, or 6.75 are we allowed to lend below this rack rate?

Sudipto Sil: No. That is not permitted.

Utsav Gogirwar: That is not permitted. That is it from my side. Thank you.

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

Umang Shah: Thanks for the opportunity. Just a couple of questions on provision 230 Crores which we have assigned to these assets which have been reclassified as NPA as far as RBI circular do you really think is there any need to increase provision cover on these loans or 230 Crores will be sufficient enough?

Sudipto Sil: As far as the RBI 12th November circular is concerned, we have already applied that and 230 Crores is the number which has been provided for this.

Umang Shah: So the way to look it that 230 Crores would be incremental so the total provisions against this asset would be higher is that the right way of understanding?

Sudipto Sil: Yes certainly, certainly. Some provision has already been done.

Umang Shah: The second question was that on our stage 3 provision cover, So now I understand that obviously last four to six quarters have been fairly uncertain for the industry as the whole but our stage 3 provision cover has also been fairly volatile, so under the ECL model how should we look at a more steady sort of stage 3 provision cover for us?

Sudipto Sil: Certainly yes. Now because as you have very rightly said in the last two years there has been so much of events, uncertainty, some much intervention by regulator requiring different types of treatment now you are looking at much more stable provisioning I would say overview.

Umang Shah: So the current 40% PCR should be like a more sort of steady state provision cover is that a fair understanding?

Sudipto Sil: Yes, yes it will be at least 40.

Umang Shah: At least 40. Okay understood. Sir the question was that have we made any appropriations to the impairment reserve during the nine month period in the current fiscal?

Sudipto Sil: Current year as of date the total impairment reverse provisioning is 297 Crores. That is the total.

Umang Shah: Which would be about 200 odd Crores as on the previous fiscal and just a last question from my end what proposition of our loans would be linked to any sort of an external benchmark, like a REPO rate or something.

Sudipto Sil: You are talking of the lending side or the borrowing side?

Umang Shah: Lending side. Lending side.

Sudipto Sil: It is an internal PLR benchmark. Now that PLR is also comprised of our internal cost of funds and other administrative cost, so you can say that obviously if there is a movement in the external rates of interest it will also impact our PLR.

Umang Shah: Okay alright perfect. Thank you so much and I wish you all the best for future quarters.

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

Kunal Shah: Thank you for the opportunity**.** I had two questions one was pertaining to the growth. You know in the current quarter on a year-on-year basis and individual housing loan segment, we had a good growth of 15% and on quarter on quarter basis a good growth of 4% but however still we are seeing in comparison to other players who are present in the housing market, their growth was much aggressive on both year-on-year basis and quarter on quarter basis. I mean if I have to mention large private banks. They had growth northwards of 20% right and also now we have taken a further rise in the interest rates, so just wanted to understand is it the competitive intensity that is hampering our growth or how should we look at growth from here on for LIC Housing Finance?

Y. Viswanath Gowd: As far as the growth is concerned really you have got a good question, I agree with you. What happened you see in the market now it is very, very competitive. Many players are there including banks and HFC all are playing in that and of course looking at the size of our company what you call growth. If you look at some of that parameters I think it will be more clear. Last year also what happened Q3 was very high because of lot of pent up demand in Q1, Q2 last year and nearly we did more than nearly 77 Crores in that quarter itself. So over that we have seen the growth of nearly 5% is a good thing in the current year and then if you look at the overall also. Overall for all the three quarters together the growth is more than 30%, 35% now. So in the market I agree there is a challenge but now happened even though with increased rate of interest even few basis points it is up only. In the market actually we are having what you call demand across all areas, across geographically tier 2, tier 3 metros everywhere what happened, our people are really on the field and with that our numbers even our channels are doing well and all regions are contributing this year so with that we are very sure that I think the growth rates will be maintained or further may improve.

Sudipto Sil: Just to add to what MD Sir just mentioned 15% growth on a 2 lakh Crore portfolio also on the core home loans where the competition is the most intense, I think this 15% growth on this book we are seeing after many, many quarters and despite the so called competition that you referred to.

Moderator: We have lost the line for the current participant. We will move to the next participant. We take the question from the line of Asutosh K Mishra from Ashika Stock Broking. Please go ahead.

Asutosh K Mishra: Sir my first question is to all, the developer loan segment? Right now we have seen good recovery in this quarter and in the initial comments you also mentioned that you have again started seeing, growing this portfolio so can you put some light what is happening in this segment? We were the quite large player in this segment and what is possibly will be contributing towards the NIMs till few quarters back so how are you want to take this portfolio again seeing our experience?

Y. Viswanath Gowd: One thing actually, our developer book size you are aware that it is hovering around 6% to 7% because what happened of course after COVID there are lot of what you called delay and also somewhere the projects were not taking off very well and activities were slowed down almost over there. Now I think slight there is recovery so we also what you called now focused a lot on this one and already we have got a good number of proposals with us across some different towns, cities and all so going ahead I think there will be good expansion even these projects in the developer loan book also with us in the last quarter of current year. We also look for actually even other places and even other loans like commercial, lap or even some LRDs and all which can yield actually better margins for us.

Asutosh K Mishra: What is Sir current incremental yield on a developer and the lap portfolio if you can just put forward compared to the home loan where are seeing the competition what incremental yield we are getting in these two other portfolios you just mentioned?

Sudipto Sil: In the developer loans around say 12% to may be 13% max and in the loan against property it will be ballpark around 9.5% to 10.5% depending upon the rating.

Asutosh K Mishra: Sir another question is you just mentioned that we have seen the sharp improvement in NIMs and the OTR number what was the OTR number in the last quarter and what is the OTR number in this quarter because I think this was a large change and that may have impacted the NIMs in the quarter?

Y. Viswanath Gowd: You are asking for September.

Asutosh K Mishra: Yes September?

Sudipto Sil: September the figure was Rs.2141 Crores in September quarter. The December quarter is Rs.490 Crores.

Asutosh K Mishra: The interest works out of Rs.350 Crores mainly towards the OTR if I can assume?

Sudipto Sil: In the Q2.

Asutosh K Mishra: Yes in the Q2 yes?

Sudipto Sil: Yes.

Asutosh K Mishra: On the cost of funds side, how much increase do you anticipate in the next six months given the way things are changing at this point of time?

Y. Viswanath Gowd: The cost of funds there is a very strong likelihood of Reserve Bank action on the interest REPO or REPO. Part of it has already been priced into the markets in the bond yields, but it has not affected too much on the longer end of the curve. It is a medium and the shorter end of the curve, which has been impacted most and again if you look at the construct of our liabilities we are about 60% plus of the liabilities are fixed rate in nature. That will certainly help us to cushion some of the initial increases and again if you place in perspective the bond yields have been hardening since October, but in the Q3 also we have been able to get about seven basis point reduction in the cost of funds on more than 2 lakh Crores of liability portfolio.

Asutosh K Mishra: Sir last question is anymore large recovery coming from the developer segment Q4 or so? Are you expecting something like that there?

Y. Viswanath Gowd: A few are there in pipeline. We are also working out. Let us see how it goes because are some legal and some even these things are there because developer books of course none will be very bigger size in volume each single case like that but all put together it will be somewhat actually the volume will be a good size.

Asutosh K Mishra: Something like what we have done in this quarter?

Y. Viswanath Gowd: No. It may be better than this quarter what we feel.

Asutosh K Mishra: Got it. Thank you Sir.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Thanks for the opportunity Sir. Sir on the LCR was there any impact on our margins or profitability in this quarter because of LCR norms?

Sudipto Sil: No actually not. We had buffered up for the LCR in advance so there was not much of an impact there and we have also disclosed it in the published numbers you can see. The LCR is more than 200% and we had been able to create adequate buffers. No problems on that.

Y. Viswanath Gowd: We are fully compliant on that.

Nidhesh Jain: Sir stage 2 numbers for both individual housing as well as individual on housing portfolio?

Sudipto Sil: Stage 2 numbers for individual housing loan is Rs.5600 Crores and the total you already have so you can just check it out.

Nidhesh Jain: Thank you Sir.

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

Nischint Chawate: This is Nischint here. My questions are answered. Thank you.

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

Kunal Shah: Congratulations for a good set of numbers. Sir firstly in terms of the corporate recovery almost a Rs.1500 Crores of repayments have been there this quarter any impact of that in terms of may be recovery and interest would also come back and we would have booked something or there which is reflecting in NIMs or it is pure principle repayment and no one off on the corporate side at all?

Y. Viswanath Gowd: No it is mostly interest. It is the principle closure, principle repayment you can say.

Kunal Shah: Okay so nothing in terms of either may be interest or penalty or something, which would have?

Y. Viswanath Gowd: Nothing.

Kunal Shah: Corporate developer NPAs would have gone by Rs.130 Crores or so during in the quarter? I think 27% suggest that?

Sudipto Sil: Actually the denominator has come down.

Kunal Shah: Even on the denominator may be compared to 24% odd so Rs.3650 Crores goes up to Rs.3800 Crores so just want to check if there is any further slippage as well which has happened during the quarter because that seems to be Rs.150 odd Crores of an addition?

Sudipto Sil: So the stage 3 and the project loan is Rs.3972 Crores.

Kunal Shah: Rs.3972 Crores and in September 2021 how much was it?

Sudipto Sil: It was around Rs.3900 Crores only.

Kunal Shah: Okay so increase as such?

Sudipto Sil: No.

Kunal Shah: Lastly in terms of the overall part from whatever was required under the RBI there is further inch up which is there in terms of the provisioning under stage one and stage two put together is almost like Rs.830 odd Crores so would there be like further kill we will keep on creating the buffer under stage one and stage two going forward as well or we are more or less adequately covered now?

Sudipto Sil: It is done.

Kunal Shah: Whatever is required is everything?

Sudipto Sil: Yes.

Y. Viswanath Gowd: Because our books are mostly in the retail segment. Retail segment what is happening now recoveries are good so now even COVID impact all these things are slightly fading out so I think that will be the more or less same stability for us.

Kunal Shah: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Rikin Shah from Credit Suisse. Please go ahead.

Rikin Shah: Just a clarification Sir has there been any restructured accounts that have come down on the restructured portfolio because as of last quarter the outstanding books seem to be around Rs.7300 Crores and in one of the earlier questions you mentioned it is just slightly above Rs.7000 Crores now?

Y. Viswanath Gowd: It is Rs.7300 Crores. There have been no restructuring coming out.

Rikin Shah: But if there is additional restructuring and no account has come out how it would be same sequentially?

Sudipto Sil: Sequentially it is not same. I am not able to understand. Total put together will be around Rs.7500 Crores that was the number I had taken Rs.7100 Crores plus Rs.400 odd Crores. If you want the exact number it is Rs.7471 Crores to Rs.7000 Crores something like that.

Rikin Shah: That is helpful. In the last quarter you had also given some split on the breakdown of this restructured between some segments? Is it possible to furnish it this quarter?

Sudipto Sil: I think it is given in the disclosures to the notes to accounts. There is a table which is appended below.

Rikin Shah: We will have a look Sir. Thank you.

Sudipto Sil: That gives all things.

Moderator: Thank you. The next question is from the line of Param Subramanian from Macquarie. Please go ahead.

Param Subramanian: Thank you for the opportunity. I wanted to ask on the BT out this quarter is there any uptick because the prepayment that you have mentioned in the presentation that has gone up half year versus nine months so that is my first question and secondly on the loan book side how frequently does the loan book reprice since it is 99% floating so for example if RBI were raise the REPO by 25 BPS at the next meeting how long before the entire loan book on the loan side reprises? Those are my two questions?

Y. Viswanath Gowd: This will be a quarterly review which will happen. It will be a quarterly which will happen.

Param Subramanian: On the loan book side so if the bench mark gets raised by say 25 BPS including the outstanding loan book everything will reprice as in how long before the entire loan book reprises?

Y. Viswanath Gowd: As I told you quarterly. It depends upon when the Reserve Bank is going to increase. What will be consequent impact of that on the cost of funds that also is to be seen? Sometimes it might so happen that even without the REPO or the reverse REPO action there should be an increase which might require us to review the PLR and revise it accordingly.

Param Subramanian: Got it and my other question on the prepayments so there is an uptake?

Y. Viswanath Gowd: Prepayment more or less remains stable on the individual side. In the non-individual project loan side, there have been slightly higher prepayments.

Param Subramanian: Sir I am looking at the presentation of the individual home loans slide? It has gone up, prepayment nine months is 10.8% and if I look at it half year it used to be 9.9%?

Sudipto Sil: It is hovering around 10%.

Y. Viswanath Gowd: Around 10%.

Sudipto Sil: Even earlier quarters also where there. The pre-COVID levels are more or less the same.

Y. Viswanath Gowd: It was 10.8% only. On an annual basis I think it was 10.5%.

Sudipto Sil: It was around 10.5%.

Y. Viswanath Gowd: On a full year basis, it will generally be between 10% and 11% on a full year basis.

Param Subramanian: Got it so there is nothing special in terms of BT out in this?

Y. Viswanath Gowd: Nothing because if you see part of the first half if you see two months there was almost a stoppage of business activities. Due to the second wave there was almost a stoppage of business activities in the first two months that is April and bigger part of May so that time the offices were also closed. In fact, there was no business activity. People did not prepay things like that so to that extent that particular six months period might be skewed. Now if you look at a full year of last year that will give you a much, much more stable and comparable base.

Param Subramanian: Got it. Fair enough. Thanks for those answers. All the best. Thank you.

Moderator: Thank you. The next question is from the line of Vikram Subramanian from Spark Capital. Please go ahead.

Vikram Subramanian: Congrats on the good set of numbers. You have explained about the margin increase because of the reduction in the OTR run rate but with restructuring still happening how do we see restructuring as well as NPAs trending going forward? In individual home loans last time we had 2.25% and now it is 2.1% can we expect any sharp corrections in the coming few quarters both in the individual and any chunky resolutions in the book is that possible? Any color on that?

Y. Viswanath Gowd: Actually what you said is correct. What happened actually recoveries are good and with that what happened in the individual book size even people who took earlier what you called moratorium or OTR now they are slowly coming out of that. We have got a special task force only for that so what happened people can come out of that. That is giving good edge for us so that is why slowly there was an improvement in that as for the individual retail loans are concerned. In the developer book also what happened now because slowly there is now momentum then the projects start taking off, then sales are happening across so we see there will be some sort of reversal even in the developer book also. Those cases and OTR slightly can be better off in this quarter.

Sudipto Sil: The overall visibility is much, much stronger today as compared to six months back that is for sure.

Vikram Subramanian: Got it and can you please say how much of quantum of loans that came out of OTR during the quarter? Is it Rs.490 Crores during the quarter OTR being made so how much would have come out normally?

Sudipto Sil: Nothing has normalized because most of them are still within the OTR framework of the moratorium. It has not come out. It may start coming out may be most of the people who had taken the OTR had taken it between say one and a half to two years may be one to two years and that period will start may be about six months from now. Six months to 12 months from now.

Vikram Subramanian: Six months to 12 months from now got it. One final question now most of our loans are floating rate basis if and when the things and rates start increasing when do we see first set of resetting? How often is the reset?

Y. Viswanath Gowd: It is difficult to give an exact date because obviously the central bank is yet to come out with the policy announcement but my guess is that it will not be very long. It may be anywhere between say may be couple of months we can say. It is likely to happen across the industry. It is not the first time it is happening. It has happened earlier also several times in the past, two to three years back in the past also it has happened so this is a regular phenomenon and it will happen in its normal course.

Vikram Subramanian: I meant in our portfolio when does the recent reset happen?

Y. Viswanath Gowd: Every quarter.

Vikram Subramanian: The reset happens every quarter? It reflects for all the customers every quarter?

Y. Viswanath Gowd: Every quarter.

Vikram Subramanian: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Good afternoon. Sir my fist question is basically on SARFAESI in the last one to two years SARFAESI has been pretty slow just want to know how has it picked up now and how much of our resolutions in home loan and LAP in the past two quarters has been due to SARFAESI?

Y. Viswanath Gowd: SARFAESI action of course you are aware last year what happened because of COVID of course there was some sort of no taker in the sense activities were not that much enforceable almost all so that what happened now in this quarter slowly it has picked up. Now it is coming to actually almost 70% to 80% of our earlier what you call pre-COVID levels in SARFAESI activities also. I think going ahead once we restore the full I think there will be good success like in the past.

Piran Engineer: Typically what percentage of our individual NPLs would we invoke SARFAESI like out of hundred NPL accounts?

Y. Viswanath Gowd: Of course, it depends because now people can come for OTRs. They can also come out of that. Even they can repay. All these things are there involved. I think may not be very heavy. What I feel I think pre-COVID levels also we used to hardly may be around 15% to 16% range will be there.

Sudipto Sil: In the SARFAESI especially in the retail customer segment the issuance of a notice under Section 13(2) itself brings both action from the part of the borrower so many times you may not actually even have to take it to the level of an auction.

Piran Engineer: Got it. Sir my next question is on yields so I just want to understand this properly. We have increased it from January 1, 2022 for three it is increased only for the incremental disbursements post January 1, 2022? Secondly has competition also done it? Thirdly just before Dussehra we had a sort of a festival offer of 6.6% so it is just and that was till December 31, 2021 so it is just that the festival offer has gone and optically the yields look higher?

Y. Viswanath Gowd: Before the offer the rates were different. The offer the rate was 6.66% and after the offer we have increased the lending rates for the new loans from first week of January. It is not a removal of an offer. There have been other changes also internally in different segments, in different loan slabs also product categories also there have been changes made. It is not a removal of an offer.

Piran Engineer: Got it but has the old book also been repriced by 10 BPS?

Y. Viswanath Gowd: No. Not yet.

Piran Engineer: Are we seeing competition start to do that?

Y. Viswanath Gowd: We have taken an independent view depending upon our own perception of the market and our own growth trajectory. We have taken an independent decision. It is possible that some players might have taken or may not have taken.

Piran Engineer: Got it. That is all from my side. Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Abhishek Khanna from Jefferies. Please go ahead.

Prakhar: Good afternoon Sir. This is Prakhar. Just a couple of questions first if I cold clarify that of this credit cost during the quarter about Rs.350 odd Crores is it possible to help to break it up between what is any of the one time here because let us say Rs.490 odd Crores of restructuring done this quarter may have attracted a 10% provision? Any of the reclassification cost of Rs.230 Crores if it was done through the P&L this quarter so what is basically the business as usual part of the Rs.355 Crores and what is the one time part of the Rs.355 Crores?

Sudipto Sil: You can say that the Rs.230 Crores that has been created because of the RBI provisioning requirement or the RBI circular that is something which is for the first time. It was obviously not done earlier. This is the first time that the circular has also been implemented so apart from that everything will be normal.

Prakhar: Even the restructuring was not done this time that Rs.49 odd Crores in case you have to make a 10% provision on the Rs.490 Crores?

Sudipto Sil: That has been done earlier also. Provisioning is related to the restructuring has been done in previous quarters also.

Prakhar: I know but so that Rs.49 Crores will be part of the Rs.355 Crores right is it fair to understand?

Sudipto Sil: Yes.

Prakhar: On the project repayment that you mentioned Rs.600 Crores to Rs.700 Crores is it fair to assume that they were all stage one type of loans right because basically repayment because of stage three within project loans has not declined and they practically paid just the principle so the problem the good quality loans only?

Sudipto Sil: Mostly stage one but could be stage two also.

Prakhar: Last thing is just a little bit forward-looking here historically Q4 for LIC tends to be stronger quarter in terms of even NII recognition, partly because some of the overdue accounts, etc., come and payback would it be fair to assume that pattern is likely to continue or would that get normalized?

Y. Viswanath Gowd: No it is difficult to actually give you any number. To be very honest you are asking for a number so I cannot give a number. It is forward-looking but yes certainly we can say that margin stability will be there for sure and typically Q4 is the best quarter in terms of business. It is the best quarter for recoveries as well.

Prakhar: Perfect. Thank you Sir.

Moderator: Thank you. The next question is from the line of Akhil Hazari from Robo Capital. Please go ahead.

Akhil Hazari: Good afternoon. Sir I just wanted to know what is the normalized credit cost for the company.

Sudipto Sil: Normalized credit cost in the last two years I can just share with you. FY2020 was 48 basis points. FY2021 was 60 basis points and currently if you see in the first part of the year and first half of the year it was very high more than 100 basis points. Q3 credit cost has come back to 60 basis points.

Akhil Hazari: Going ahead are you planning on keeping it below the 1% there?

Sudipto Sil: Yes certainly.

Akhil Hazari: Thank you. That is it from me.

Moderator: Thank you. The next question is from the line of Mayank Gulgulia from SUD Life. Please go ahead.

Mayank Gulgulia: Our loan book which is floating it is linked to BPLR so whether BPLR is linked to marginal cost of fund or average cost of fund?

Sudipto Sil: BPLR is linked with the marginal cost of fund also has got a weighted average. I will put it this way. It is not purely on the marginal cost of funds but marginal cost of fund has got a replacement cost impact.

Mayank Gulgulia: The greater vetting for marginal cost of fund or average cost of fund?

Sudipto Sil: No it is marginal.

Mayank Gulgulia: Understood and 30% of our borrowing is from banks and NSE so is it fair to assume that this portion of borrowing will be linked to the REPO rate?

Sudipto Sil: Some of them are with external benchmark like TBL also.

Mayank Gulgulia: Most of it will be like either CIBIL or REPO rate?

Sudipto Sil: Yes.

Mayank Gulgulia: Thanks a lot.

Moderator: Thank you. We take the last question from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Thanks for taking the question again. On restructuring you said there were no reversals but I assume we are not accruing not interest on the restructuring the way we have reversed it in the previous two quarters? Rs.500 Crores interest will also would have got reversed in this quarter as well may be for the entire?

Sudipto Sil: No it is not there. Whatever has happened in Q2 itself is done and finished.

Kunal Shah: Incremental structuring which was there is no reversals which have happened?

Sudipto Sil: There is no further restructuring circular or instruction from the Government of India. It has stopped you know that from RBI.

Kunal Shah: No the pending which was there which could have got implemented?

Sudipto Sil: Even that implementation period is over.

Kunal Shah: Lastly in terms of the outstanding restructured pool so Rs.5000 Crores is corporate and the balance is individual, but within individual can you give how much would be the home loans and how much would be LAP?

Sudipto Sil: I do not have the full details right now.

Y. Viswanath Gowd: As far as the restructuring is concerned because our loan book all if you see 80% is individual only internal.

Kunal Shah: If there is any difference in terms of may be less or may be individual non-home loans are there so just wanted to get that sense there?

Sudipto Sil: No.

Kunal Shah: I will take it from you separately. Thank you.

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

Y. Viswanath Gowd: I thank ever one of you for giving this opportunity once again. Friends actually we look forward for a very, very positive and a very strong Q4 and the company is fully geared up. All my team members across the country are fully working in tandem with all our goals. All the recovery people are also putting their best so going forward we look for a very good double-digit growth as well as things are concerned then again recovery also will be very strong enough to bring down our NPL levels from the expected levels. With all these things the company will be in a position to close the finance layer on a very sound footing. On behalf of the entire team here, I also thank you for giving this chance to meet every one of you. Thank you and wish you all the best.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. We thank you all for joining us. You may now disconnect your lines.