"LIC Housing Finance Limited
Q4 FY2019 Earnings Conference Call"

May 06, 2019

ANALYST: **MR. VIKASH MUNDHRA - AXIS CAPITAL LIMITED**

MANAGEMENT: **MR. VINAY SAH – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - LIC HOUSING FINANCE LIMITED**
MR. SIDDHARTHA MOHANTY – CHIEF OPERATING OFFICER - LIC HOUSING FINANCE LIMITED
MR. SUDIPTO SIL – DEPUTY CHIEF FINANCIAL OFFICER - LIC HOUSING FINANCE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the LIC Housing Finance Q4 FY2019 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. Vikash Mundhra. Thank you and over to you Sir!

Vikash Mundhra: Thank you Aman. Good morning everybody and welcome to the Q4 FY2019 earnings conference call of LIC Housing Finance. We have with us, Managing Director & CEO, Mr. Vinay Sah, Chief Operating Officer, Mr. Siddhartha Mohanty and Mr. Sudipto Sil, Deputy CFO to discuss the Q4 FY2019 results. I now request Mr. Sah to take us through the key financial highlights of the quarter post, which we will have, the Q&A session. Over to you Sir!

Vinay Sah: Good morning and welcome to the post earnings call of LIC Housing Finance Limited. As you would be knowing LIC HFL declared its Q4 FY2019 results on Saturday.

Before I go on to the highlights, introduction to Mr. Siddhartha Mohanty who has joined about a fortnight back as Chief Operating Officer with us in LIC Housing Finance. This is part of a succession planning, which LIC HFL has devised, which will happen during the course of this current financial year.

The key highlights of the results are as follows: revenue from operations up 20% to Rs.4655 Crores as against Rs.388 Crores for the corresponding quarter. Outstanding loan portfolio growth of 16.13%, it goes up to Rs.194646 Crores as against Rs.167467 Crores. Individual loan portfolio growth is around 14% and it has gone up to Rs.181569 Crores as against Rs.159350 Crores.

Disbursements showed a growth of about 7% and have gone up to Rs.18649 Crores as against Rs.17402 Crores for the previous year. Disbursement in the home loan segment clocked a growth of 18% during the quarter and stood at Rs.12248 Crores.

Net interest income showed a growth of 21% and it has gone up to Rs.1201 Crores as against Rs.989 Crores. NIMS were at 2.54% as against 2.44% for Q4 FY2018 and 2.33% for Q3 FY2019.

PBT clocked a growth rate of 21% and has gone up to Rs.986 Crores as against Rs.813 Crores last year. PAT for the quarter stood at Rs.693 Crores as against Rs.594 Crores showing a growth of 17%.

The Board has recommended a dividend of 318% that is Rs.7.60 paise per share.

The fourth quarter for financial year 2018-2019 brought to close one of the most eventful years for the NBFC and particularly the HFC sector in the recent past wherein an unprecedented situation triggered a liquidity squeeze of a severity that we have not seen much often; the situation has eased. Considerable thanks to the initiatives of the government and regulatory authorities and is likely to normalize soon. The fourth quarter was one of the best quarters that we have seen in terms of our core home loan segment, which clocked disbursement growth of 18%.

As compared to Q3 of this year that is sequentially our disbursement clocked almost a 46% growth with a 33% growth in home loans. Project loan disbursements for the quarter stood at Rs.2031 Crores as against Rs.2266 Crores for the corresponding quarter of the previous year. We have continued to take selective exposure with good quality projects.

Amongst the regions, the eastern and east central regions, central and north central and southeastern regions registered impressive growth. On the affordable housing front under the PMAY CLSS schemes the company has registered an outstanding performance. For the full year, the company had disbursed about 38000 accounts under this scheme accounting for nearly 19% in terms of numbers and has received a subsidy of nearly Rs.1000 Crores for the beneficiary. The company’s strategy of opening large number of offices and creating regional centres in those locations have delivered good dividend. The company plans to augment its reach by opening nine more marketing offices in the current year, once again the thrust being in Tier 2 and Tier 3 locations.

Another initiative taken by the company was introduction of the direct marketing executive channel, which has generated more than 700 Crores of business this year.

On the portfolio growth front the total portfolio recorded a consistent growth of 16%, prepayments rates continue to go down and they are now at three-year low.

In terms of asset quality under Ind-AS there has been an increase in stage 3 exposure at default, which has increased by 33 basis points from December 2018 levels that is from 1.25% to 1.58%. Mostly on account of transition from stage 2, which has shown a decline of about 56 basis points from 4.93% to 4.37%.

Moreover the stage 1 accounts that is the standard assets has shown an increase by 23 basis points thereby indicating that the increase in stage 3 is more of an ageing of the stage 2 accounts. No specific trends were observed in this transition, which has led to the increase in stage 3 ratio.

Asset quality has always been focused area for us in the company has always delivered a very strong performance on this count. We are treating this rise with at most urgency and placing it in the order of highest priority and are confident of improving the asset quality in a couple of quarters. We have zero tolerance policy towards NPA.

On the cost of fund side though there has been a sharp increase in the interest rates in the system following the liquidity squeeze we were able to contain the increase in the cost of funds to a considerable extent.

During the quarter the weighted average cost of funds has increased sequentially by a negligible 4 basis points only; however, we have been able to offset the increase by passing on the hikes on the asset side.

During the quarter the company hiked its PLR by 10 basis points making it a total 70 basis points PLR hike during the current fiscal.

The overall spreads have as a result shown year-on-year increase of 22 basis points resulting in an increase of 21% in net interest income for the quarter and an increase of 10 basis points in NIMS to 2.54 for Q4.

Liquidity continues to be good. The company has raised nearly 15000 Crores of NCDs during Q4 in addition to other sources like CP, bank loans, etc.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: If you could explain the accretion to your developer NPLs, I mean, if they rise because these companies were dragged to NCLT and which region are they from? Are they from the NCR region and how would they be resolved?

Vinay Sah: No, currently we do not have any account, which is there with the NCLT, so consequent to that exposure, I mean exposure to such companies, which are already there with NCLTs there is nothing. The accounts that have gone there will be some two, three accounts totalling to about Rs.150 Crores, have gone into NPAs.

Mahrukh Adajania: And which region would they be from, are they from the NCR region?

Vinay Sah: A couple of them are from south.

Mahrukh Adajania: Okay, so it is not from NCR?

Vinay Sah: No.

Mahrukh Adajania: Sir just one more question on asset quality, what happen to retail asset quality, really the fourth quarter recoveries are very strong, but this time there has been a significant accretion to NPLs so what explains that?

Vinay Sah: As I said, the defaults in a very large portion in that category retail that is very surprising to us also. They have shifted to defaulted because of ageing, some delayed payments were there two, three months delayed payments were there, which usually do not slip in such large numbers, so may be because the market liquidity is such and across the market, these things are happening, this year said, industry-wide phenomena, which has hit us also.

Mahrukh Adajania: Got it Sir, but is there any geographic bias to these slippages and they have slipped all over?

Vinay Sah: No. I can only say that in fact in parts of UP, Uttaranchal, Hyderabad, Telangana, the performance has been very good, there such slippages are not seen, but other than it is observed all across the country.

Mahrukh Adajania: Thank you.

Moderator: Thank you. The next question is from the line of Akash Dantanni from HDFC Securities. Please go ahead.

Akash Dantanni: Good morning and thank you for taking my questions. So my first question is on the core home loan growth, so where do you see this going? So your outlook for core home loan growth?

Vinay Sah: We actually last year overall when we targeted the 15% to 16% growth rate for disbursements, which included core plus non-core both, so therein what we have got this time going ahead also where we will target the same growth rate, it is about 15% and we will try to achieve this more by the expansion of offices that we intend doing, about 9 offices to be opened.

Akash Dantanni: Okay, so Sir, it is fair to assume that the core home loan growth would continue at the current levels?

Vinay Sah: Yes.

Akash Dantanni: My question is on, what is the yields and cost of funds for the quarter?

Vinay Sah: Cost of fund for the quarter was about 8.53%. And yield was about 10.3%, 10.4%.

Akash Dantanni: Your outlook on the margins as in where you see them going from here?

Vinay Sah: Margins see it is very difficult to say, frankly speaking borrowing cost.

Akash Dantanni: Will inch up, I am assuming?

Vinay Sah: Yes, but more or less it should, I mean, for our company now it is very stable around the same percentage of 2.4%, 2.5% something like that. We would try to improve it by may be 5 basis points or 10 basis points something like that.

Akash Dantanni: Sir, in the individual NPAs that you have all reported, could you provide a split up between the core home loans and LAP?

Vinay Sah: The core loan was about 0.9% and non-core was about 1.4%, 1.5%.

Akash Dantanni: That is it from my end Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Anirban Sarkar from Principal Mutual Fund. Please go ahead.

Anirban Sarkar: Thank you Sir for the opportunity. Just one question; my question is that I think there has been a shift in provisions that we are holding from stage 3 assets to stage 1 and 2 assets, so this is a bit surprising in a quarter where we have seen NPAs actually going up, so is anything changing on the assumption side on your stage 1 and 2 assets? Are you expecting higher LDGs or what has led to this need to move the provisions more to stage 1 and 2 rather than maintaining our TCR on stage 3 assets, if you could help me understand that math it would be very helpful?

Sudipto Sil: This is Sudipto here. See actually if you look at it what we just mentioned that most in the opening remarks what our MD mentioned is that most of the NPAs that have happened at stage 3 is mostly a transition from stage 2. So we are expecting upgrades from stage 3 in the very near future, so that is one of the reasons why you know you will probably if you compare it with the December or September number, you will find this trend.

Anirban Sarkar: That is what I am saying, I mean if it has passed from stage 2 to stage 3, then the provisions would also pass from stage 2 to stage 3?

Sudipto Sil: That is correct, that is per the ECL model being adopted, but there also if you look at the nature of the transitions, which have happened, there is a room for upgrades from stage 3 to stage 2.

Anirban Sarkar: Okay fair enough. Thank you and all the best.

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

Kunal Shah: Sir, just to again come on the question of breakup of individual NPLs, so you highlighted it is 0.9 and 1.4. So how much was it in Q3?

Vinay Sah: Q3, the individual was 0.76 and noncore was about the same 1.38-1.4

Kunal Shah: Just want to get the sense, this would be largely be sell rate on the individual side and normally in Q4, we see a significant decline, so what would have led to this, even though it is transitioning from stage 2 to stage 3, but what would have actually led to this kind of delays because we are not seeing it across the industry?

Vinay Sah: Kunal, I do not know whether it is not being seen across the industry, but the fact is that there has been some deterioration across the board so that is the resultant and we are very confident that we have interacted with the set of customers and we know that this is not a very hard bucket, so that is the reason why again and again we are trying to convince that this is mostly a transition which has happened from stage 2 to stage 3 and it is across salaried, non-salaried both.

Kunal Shah: Any specifics so it is not like salaried, is not moving and non-salaried is moving?

Vinay Sah: No, no, it is not like that, both of them.

Kunal Shah: How much would be the interest income reversal on account of this rise in GNPLs?

Vinay Sah: There is no reversal per se.

Kunal Shah: You would have not booked it.

Vinay Sah: There is no reversal. It is not booked then it is not booked. There is no reversal per se.

Sudipto Sil: Kunal, I hope you appreciate that increase in the growth rates in income have happened despite these levels of NPAs. I appreciate your concern on the NPAs, but I can assure you that in the company, there is much bigger concern and much bigger activity going on around now to see that this gets back to much lower levels and we plan to do it within two quarters.

Kunal Shah: No, the only thing was, my stance was in fact margins would have been much better, I would say normalized margins would have been better, but just because of the rise in GNPLs, actually we had seen only 21 basis point, so I just want to get the sense like how much would have margins moved up and what would be the normalized margin had this rise in GNPLs would have not happened?

Sudipto Sil: Kunal number one please do not say only 21…

Kunal Shah: Yes I know it is a sharp rise

Sudipto Sil: Kunal, just to give you some sense of the numbers, see for example if the NPLs had been lower by say about 300 Crores or so, 300 or 400 Crores, for a quarter…

Sudipto Sil: Yes, which is normally the trend between Q3 and Q4 around 200-300 Crores, which is about a 500 Crores variation from now, so at a yield of about 10%, you can easily calculate the kind of impact that would have had on the income, in the range of 10%.

Kunal Shah: Okay and overall in terms of the growth, given slackening competition, how do we see it, are we seeing the benefit may be on the core home loan side, we have seen a growth of almost 17%-18%. So one is may be do we see this traction continuing and what would be our stance LAP going forward? Is that a segment, which we are conserving till we are relatively more risky and may be the growth out there would be still muted?

Vinay Sah: Coming to you second question first, the LAP growth rates are what we have experienced not only in Q4 but also throughout the year, basically at par kind of performance as far as LAP goes. Home loans, yes, especially in Q4, the growth rates have been very good, much better than what we expected, much better than what the market reflection was that probably the growth rates would not be this high. Going forward also, I believe the growth rates or the disbursements have not improved only because some of the players are may be disbursing less, but let me tell you this, home loan front, none of the players are going slow. It is only on the bigger development loans and other things that some of the players have gone into, and secondly, as I said we got good traction from the PMAY affordable segment also.

Kunal Shah: Lastly, on the developer, we will see this kind of traction continuing or may be given there is a rise in GNPL that we would be slightly up?

Vinay Sah: No, as I have said, I have been saying since the day I joined on the developer loan, we are very selective actually. So, all decisions are on a case to case basis, going ahead also, may be not a 60%-70% growth rate, but I mean, it is not out of our focus or something, may be around the same percentage. We would be targeting, current year we have done about 7000 Crores disbursement in developer loans, that may be 8000 or 9000 Crores next year.

Kunal Shah: So that might continue?

Vinay Sah: Yes.

Kunal Shah: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Nilang Mehta from HSB Global Asset Management. Please go ahead.

Nilang Mehta: Thank you for taking my question Sir. This was regarding NPAs for your LAP portfolio, which you mentioned is around 1.5%, looking at your LAP as a percentage of your book, which is around 15%-17%, that means your LAP NPAs almost running at 8%-10% kind of range. Could you explain that Sir? It seems pretty high considering historically we have said that our LAP book is very similar to a home loan book where we are just doing salaried low ticket LAP and hence the sharp diversions between the NPAs in this two categories seems quite large, so can you just throw some light on this?

Vinay Sah: I did not get you, 10% of what you said?

Nilang Mehta: Sir of the LAP book, if you use 1.5% as your LAP NPAs, is it of the overall book?

Sudipto Sil: No, no it is also LAP book, LAP book yes.

Nilang Mehta: Then can you just give a difference why both books are seeing such reasonably large divergence in terms of one is showing 90 BPS and the other showing 150 BPS considering both are salaried kind of underlying as well as small ticket LAPs?

Sudipto Sil: Nilang, what has happened is, I mean, LAP usually the volume is bigger, so the same person having a housing loan and a LAP loan, if that goes into default, amount wise, that will be more.

Nilang Mehta: I did not get that Sir, can you explain again?

Sudipto Sil: Yes, see the same individual who has a core loan and who has a LAP loan, this goes into default or goes into the NPA category, so the effect will be larger in the LAP portfolio. So his contribution to the NPA in core will be smaller and his contribution to the LAP volume wise will be bigger.

Nilang Mehta: Is it because you are saying the LAP ticket size is bigger?

Sudipto Sil: Yes. May be some are in specifics.

Nilang Mehta: Can you give some because this NPA increase has been a few quarters in our phenomenon, it is not new. I think last Q4 also, we had seen a similar trend, so it has been four quarters and every conference call, generally their explanation is we are looking at it, but it continues to deteriorate, so can you give some concrete, either data points to understand where these NPAs are coming from or what measures the management is taking to restrain them?

Vinay Sah: Like I said before, in fact in three of the regions, the NPA levels have come down. That is the north central region, the east central region and the southeastern region. So it is not that it has gone up everywhere and as far as measures you are saying, I think in September Q2 closing concall, I had said that we had specially setup a task force now, a separate vertical for recovery was already there, but we have setup a task force which has gone down to the level of being a person present at the area of this level. This is taking time. The manpower required for this was, we went into some recruitment also in November and December and so that is being put into place. So that is one of the major reasons why I said that these levels, I believe are the highest ever that the company has experienced and from here on, it will be a journey down below only.

Nilang Mehta: Learning from these experiences, has there been geographies, categories where incremental loans are not being returned or profiles for which you have become more conservative in terms of incremental lending, what we have seen in the book?

Vinay Sah: No. As we mentioned in the initial opening remarks Nilang, there is no specific trend that you can attribute apart from the fact that may be in some of the states it is a bit lower and it what I understand from whatever information available in public domains and industry wide phenomenon which is resulting in a weaker asset quality across the board, but having said that, there are two three things to be noted here, at the cost of repetition, for example, the first point is there has been an improvement in the stage 1 assets, percentage wise to the total of portfolio between December and March, so that is a positive fact. The second is that it is rather than fresh addition of NPAs; it is more of a transition from stage 2 accounts to the stage 3 bucket. So these are the two or three things that we have been able to observe and identify, but yes certainly as we have mentioned, it has always been a focus of attention for the company where we accorded the highest priority to asset quality and more so at this point in time.

Nilang Mehta: Just one last question on developer NPAs where we have been again guiding for recoveries, but nothing seems to be coming, so can you give a status on these loans which are close to recovery but still has not seen light of the day?

Vinay Sah: There also Nilang, I think in my last concall also I made a point that, given to us we would not like any of the accounts to go into NPAs, but some of the accounts having slipped into NPAs, the comfort that we have is that the security under each and every one of them is more than adequate and chances are that whenever they get resolved, we would never even think in terms of taking a hit as far as the principal is concerned, most of the cases, we will get interest also. But, yes, as you said, we seem to that the recovery gets faster, we get make it happen, that is something which we are working and it is probably getting hit in some of the cases from the cash flow issues that the builders are also having that contributes to this. I would not like to hazard a guess when it will be done, but one big account was very close to resolution again in Q4, but last moment hit in one of the NCR accounts, though not very big I would say, we had even got the OTS cheque and all, but then cheque bounced. I mean such things happen which are delaying the process further.

Nilang Mehta: Wish you all the best.

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

Adarsh P: You have raised yields by 70 BPS through the year. Can you just quantify when these hikes were taken like at least for the last six months, the dates or the months where these hikes were taken?

Sudipto Sil: 20 basis points was April 1, 2018, then it was August was 20 basis points, October was again 20 basis points and January was 10.

Adarsh P: So broadly from the hikes perceptive, the last hike was January so effectively most of your portfolio should be reflecting all the hikes is it? Like, as of today, whatever hikes you have taken is already baked into the yield, is that a fair assumption?

Sudipto Sil: Full 70 basis point hike was from January 1, 2019, on the full portfolio is what you can say.

Adarsh P: So the point I am saying is apart from the mix shift change, you should not have a yield improvement going forward given the kind of hikes that you have taken for now?

Sudipto Sil: No on a year on year basis, the improvement will still be there because these hikes were not there last year at this point in time.

Adarsh P: Yes, I was just mentioning on more sequential basis that this quarter should effect in the hikes, yes understood and how do you all define stage 2, is it like any account due between say 30 and 90 days or is there a subjectivity there or what is the stage 2 definition internally like how do you classify?

Sudipto Sil: Generally it is between 30 and 90.

Adarsh P: Last thing, I just wanted to understand on the funding side, you have been able to get a lot of funding in the debt market on the NCDs, I want to ask you know in the last two to three months, what has been the trend, what are you raising money at currently in terms of NCDs, because when I look at NBFCs and HFCs, your mix in terms of NCDs have actually improved in the last six months after the crisis, so it is relatively commendable, but I just wanted to understand, you know at various points of time in the last three months or at least not in the last two months, but beyond that, you know some of these funds were relatively more expensive. So if you can just walk me through why you raised that instead of say another cheaper source if you can?

Sudipto Sil: Actually there are some two to three different sources, which is taken into consideration. The ALM also matter, for example, it is obvious that the commercial papers are cheaper or probably the cheapest of all the sources, but for ALM purposes, we have limit it to a particular extent. If you see the commercial paper as a percentage of the total outstanding is around 4% to 4.5%, which was around 5% as of December. NCBs have increased and the incremental cost of funds for NCBs has come down, I would say quite, quite significantly as compared to its peak in October where the drop of around 50-odd basis point also has happened. Depending upon the liquidity scenario in the economy, the rates will move, but quite confidently we can say that those rates that we had seen in the month of October and November are certainly the interim tops that we have seen and we are raising funds around 30 to 40 basis points cheaper significantly as compared to those rates today.

Adarsh P: So, your cost of fund you said is 8.3 that is the full stock of your cost of fund, what was the incremental cost of fund?

Sudipto Sil: 8.49 is the stock, 8.53 for the Q4.

Adarsh P: Like what are you raising money today right, I would guess today is better than January?

Sudipto Sil: Yes. Today is better than January, for example today a commercial paper will be at least around 25 to 30 basis points cheaper than what it would have been in January, same for the NCDs so assuming that we maintain the same composition of liabilities as we saw in the month of March, we can see around 20 to 25 basis points drop barring the bank loans, bank loans has not become cheaper, the banks have reduced the MCLR, but it is only in the range of around 5 basis points or thereabouts. So apart from that, for the market borrowing piece around 20 to 25 basis points could be the range.

Adarsh P: Thank you Sir.

Moderator: Thank you. The next question is from the line of Utsav Gogirwar from Investec Capital. Please go ahead.

Utsav Gogirwar: Thanks for the opportunity. Just a couple of questions from my side. This quarter, we have increased the share of DSA by around 300 basis points sequentially, so now the DSA share is around up to 21%, what actually drove this. Is it like we have seen a lot of balance transfer or is this a new business or any colour on that?

Vinay Sah: Probably the DSA has got clubbed with the DMEs.

Utsav Gogirwar: What is that?

Sudipto Sil: Last year we launched a new channel known as Direct Marketing Executives, so they brought us about 700 odd Crores, so that may have got into the DSA increase in that.

Utsav Gogirwar: How different it is, this like, can you just explain?

Sudipto Sil: They get lower commissions on loans and they are paid a monthly stipend.

Utsav Gogirwar: It works similar to the DSA, right? They can source loans for all the other companies too?

Vinay Sah: No, no. Because we pay stipend, they are wedded to us.

Utsav Gogirwar: Secondly, my question is on the borrowing mix. If I look at the cost of borrowings for NHB, for most of the players, it has improved, but for us on a sequential basis, the cost of borrowing for NHB instrument has increased by around 20 basis points. Why is that so?

Sudipto Sil: There were some low cost borrowings, which had run off on their own.

Utsav Gogirwar: Sorry I did not get this.

Sudipto Sil: There were some low cost borrowings that we had taken from NHB, which had matured.

Utsav Gogirwar: Okay and what will be our incremental rate then?

Sudipto Sil: Incremental rate, we have got a 2000 Crore refinance approval from NHB today, but we have not discussed on the rates, but it should be thereabouts in the range of market may be 10 to 15 basis points here or there.

Utsav Gogirwar: What is our yield on project loans, this quarter and last year because I assume it has declined both on a YOY and quarter-on-quarter basis?

Sudipto Sil: For project loans last year, it was on annualized basis was 12.5%, so you can take it slightly more than 13%, that was as of March 31, 2018 and actually it has remained by and large at, I would not say there was too much of divergence from there, it is about say 20 to 25 basis points lower this year.

Utsav Gogirwar: What is the reason, because I assume you must have increased the rates on project loans as well right?

Sudipto Sil: Here also it is a combination of both of these two factors. First of all what you have said is that incremental whatever loans we had given, probably would be higher incrementally, but the stock also contains some of the high cost loans which have run off on their own and more importantly is that this time around we have focused significantly on the category A, A+ kind of builders where obviously because of the strength of the builders, the pricing has been much, much finer.

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

Nishant Chawathe: Sir, your reported yield on loan has gone up from 10.45% to 10.53% and I believe 10.45% for the whole of nine months and 10.53% was for the entire year, so mathematically it would mean that your rise in lending rates would have been much more in the fourth quarter per se. So we were just trying to understand as to you know what has really happened over here? The second thing is that if I look at you know the line item per your footnote on loss of modification of loans that has actually been around 18 Crores in the fourth quarter of last year and around 70 Crores in the fourth quarter of this year. So, if I add back that loss, then technically our margin expansion is again on a year-on-year basis or even on a quarter-on-quarter basis is a lot more. So we just wanted some clarity on this aspect?

Sudipto Sil: See, I think that the second point that you noted regarding the notes, footnote that is something we had discussed earlier also, but again just to reiterate whenever there is a permanent change or decline in the earnings of a particular loan that has to be factored in, so that is something which is there.

Nischint Chawathe: Actually you have reprised some of the loans is it because the loss 70 Crores in the fourth quarter versus around 15 Crores in the first nine months?

Sudipto Sil: Yes, so that is one thing.

Nischint Chawathe: Then how does the margin expand despite that?

Sudipto Sil: So the margin has expanded because that 70 basis points, what we were referring to just a few minutes back, the entire 70 basis points impact has only come from the January 1, and the margins also is a factor of the cost of funds, there was a very sharp rise in the cost of funds between Q2 and Q3, but from Q3 to Q4 it has remained by and large stable to a declining trend so the margin got captured there itself. It is a combination of both these two factors, mostly I would say in Q4 the play is on the liability aspect apart from the fact that the full 70 basis points impact on the asset side got factored in.

Nischint Chawathe: No, but there was some benefit of the 70 basis points in the third quarter also right?

Sudipto Sil: True, but the margins could not get fully released because the cost of fund incrementally for the third quarter, if you just recollect the October, November, December quarter had been very high.

Nischint Chawathe: So if I look at the weighted average cost of funds it has just gone up around 4 basis points?

Sudipto Sil: Incrementally that is between December and March, but if you see between June, your actual comparison should have been between September and December where it has increased by 15 basis points.

Nischint Chawathe: Sure. Can you share the exact number of home loan disbursement for the fourth quarter?

Sudipto Sil: It is there on the press release but just to repeat, it is 12448.

Nischint Chawathe: And what was the NPL in individual and noncore loans in the fourth quarter of last year.

Sudipto Sil: 0.4% was core.

Nischint Chawathe: That was in the fourth quarter last year.

Sudipto Sil: Yes and 0.56% noncore.

Nischint Chawathe: Just one last question, how often do you reset your PDs and LGD?

Sudipto Sil: See the PD and LGD with respect to the ECL model as we discussed in the third quarter earnings call that as almost like a work-in-progress, because that was the new thing which we have adopted and during the course of the year we had reset the model maybe once after introduction in the first quarter again it went through a change in the third quarter then thereafter it has been stable there has been no change and unless there are fresh instructions from the government or from the regulator there will not be any further changes.

Nischint Chawathe: So then incrementally it would be like sort of the PD and LGD rates would be sort of setup for the entire year now for FY2020?

Sudipto Sil: Yes unless of course there is any change in the regulatory instructions from the government.

Nischint Chawathe: And just one last clarification on NPLC you do not book any interest income right, some of the other some of your peer sort of book interest income and then they make a higher position?

Sudipto Sil: No, it is not there.

Nischint Chawathe: So do you book interest income or no?

Sudipto Sil: On which one?

Nischint Chawathe: On NPLs after migration to Ind-AS what most of your peers are doing is that they are recognizing interest income and at the same time they are making subsequently higher provisions, while in I-GAAP in the previous guidelines they were not recognizing income on NPLs. So when you have implemented Ind-AS this year do you recognize any loans on NPLs and make subsequently higher provision or do you not recognized income at all on NPLs?

Sudipto Sil: No the recognition is done but higher provision is also done.

Nischint Chawathe: So any movement in NPLs does not affect margins at all?

Sudipto Sil: No.

Nischint Chawathe: Thank you.

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

Viral Shah: Thank you. I had one question. I was looking at the repayment rates in the builder segment that seems to have come of quite sharply this quarter from some 6.5% levels to 3% levels and same has been the trend even for the individual segment?

Sudipto Sil: Yes.

Viral Shah: So could you comment on what has been the reason for such a sharp reduction especially in the developer segment?

Sudipto Sil: See the prepayments are a function of primarily two things one thing is that the interest rates and liquidity in the system and obviously the intensity of competitiveness or competition in the system. So the prepayment rate, which was there earlier, were in a different kind of a liquidity scenario and competitive scenario. Now they have changed.

Viral Shah: Even in the builder segment and there has not been any slippages because of that?

Sudipto Sil: And No it is the slippages because of prepayment rates.

Viral Shah: No, no the overall repayment rates.

Sudipto Sil: No, I am not getting your query actually.

Viral Shah: So the overall repayment rates have sequentially come down meaningfully and your NPAs in the developer segment has also increased?

Sudipto Sil: No there is nothing to do. Prepayment is completely different. Prepayment is premature repayments they are now connected to what you are saying.

Viral Shah: Thank you.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: Just continuation to what earlier was asked, just needed a clarity that incase of NPLs happening in our account you recognize the interest as well as you increase the provision. Am I understanding it correct?

Sudipto Sil: Yes.

Jignesh Shial: And the reason for lower credit cost and lower provisioning is because this quarter is because we are expecting stage III additions whatever has happened, we will see an upgrade probably in this particular financial year so the LGDs has been lower that is the reason why the provisions had been lower?

Sudipto Sil: It is based on a certain model which takes into account the trend and also the recoverability it is based on as compared to NHB which was a historical behavior this is a predictive model.

Jignesh Shial: Just two more conformation we are expecting 15% sort of a growth for next financial year and your developer finance book should do around 8000, 9000 Crores sort of disbursement, is my understanding is correct?

Sudipto Sil: Yes.

Jignesh Shial: And margin should in the range of 250, 254 BPS what you did it will be remain in the similar range going on also that should have been stable for next year?

Sudipto Sil: Yes.

Jignesh Shial: Thanks a lot Sir and all the best.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.

Shubhranshu Mishra: Thank you for the opportunity. I wanted to understand the disbursement in the construction finance segment. How many accounts? Are these fresh sanctions or these are like more like ever greening of counts and how many have been acquired from the present, due to the present liquidity crunch that we have?

Sudipto Sil: See as I said developer loan segment we did about 7000 Crores of disbursement for the year, for the quarter it was 2000 Crores. This was less than what we disbursed last year by about 200 Crores. Last year was 2200-odd Crores. So it was it. Out of this you can presume about 50%, 60% was the takeover, even 40% was fresh.

Shubhranshu Mishra: This is for the full year you are saying Sir?

Sudipto Sil: Quarter.

Shubhranshu Mishra: Quarter 60% was takeover.

Sudipto Sil: Yes.

Shubhranshu Mishra: Okay.

Vinay Sah: And about 40% was fresh.

Shubhranshu Mishra: Sir and the number of accounts that you have disbursed in third quarter and the fourth quarter. And the average ticket sizes as well?

Vinay Sah: This is on the builder side?

Shubhranshu Mishra: Builder Sir.

Sudipto Sil: Total disbursements I would say that 7000-odd Crores, 7128 Crores is spread across 105 disbursals. That could be part disbursements also of earlier loans, that the 7128 also includes part disbursals of loans which we had started disbursements last year also.

Shubhranshu Mishra: Sir what I am trying to allude to is what is the incremental disbursements on number of accounts that you have done in the third quarter and the fourth quarter every since the advent of the liquidity crunch that is what I am trying to get at?

Sudipto Sil: Third quarter, fourth quarter incremental disbursements should be in the range of around 65 to 70 units around 60 units. That is approvals maybe out of that maybe around to 45 to 50 would have got disbursed. And the disbursements last two quarters put together Q2 was around 2000 plus Crores, Q3 was around 1200 Crores, Q4 is around 2000 Crores again. So that is 3200 Crores of the third and fourth quarter.

Shubhranshu Mishra: The average thicket size for construction finance in the third quarter and the fourth quarter Sir?

Sudipto Sil: Fourth quarter the average ticket size will be in the range of around 45 Crores to 50 Crores.

Shubhranshu Mishra: Both 45 to 50 Crores.

Sudipto Sil: Yes, average.

Shubhranshu Mishra: Thank you so much.

Moderator: Thank you. The next question is from the line of Sandeep Jain from Birla Sunlife Insurance. Please go ahead.

Sandeep Jain: Thanks for taking my question. Just want to understand this provisioning and predictability of the expected loss model, if I look at the numbers from 1Q FY2018 to till the hit, our stage II from 5000 to 8500 kind of and it stays 31000 to 3000 kind of it. And despite that in this quarter the provisioning line item is lower compared to the earlier quarter kind of. Means just if you can make us understand that what highlight this expectation of the full year kind of it?

Sudipto Sil: See the important part that again if the cost of repetition if you have, have to see the improvement which is there in the sage I.

Sandeep Jain: The stage I in this quarter is also related to the disbursement of this quarter is it not true?

Sudipto Sil: No. It is an overall improvement. So that would have been there in the previous quarter as well. So if you say that then this quarter would have been there in the previous quarters also so everything is there in the portfolio. So the stage I, II, II if you look at the stage I there is an improvement and the improvement is also not very small, it is about 20, 25 basis points of improvement. And so that actually will arrest further creation of stage I.

Sandeep Jain: I understand. So because and if we compared to Q2 FY2019 to 3Q FY2019 also the same amount of increase in the stage I was there, and similar amount of increase. So in same amount there is a recovery but in stage I also deteriorating right?

Sudipto Sil: No it was not there between Q2 and Q3 stage I, has actually fallen between Q3 and Q4 there has been an improvement. I can read out the numbers if you want. Yes, between see actually there has been a declining trend from up till June itself. From March the stage I had come down to June, from June to September there was a further reduction, from September to December there was even more reduction it is only in Q4 where there is an improvement of around 22, 23 basis points between December and March in the stage I account whereas if you look at on the stage II, stage II had been sturdily rising till December now it has fallen.

Sandeep Jain: That gives you the confidence that the provision become right Sir?

Sudipto Sil: Yes, sure.

Sandeep Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential AMC. Please go ahead.

Roshan Chutkey: Thanks for taking my question. I want to understand what kind of loans are you taking, you did about 1200 Crores disbursements n the developer loan segment this time right, BT loans what kind of loans are they? And what is the nature of takeover?

Sudipto Sil: All the takeovers are in construction finance, some of them is in the lease rent and discounting, LRD. I would say that the skew has moved towards the LRD.

Roshan Chutkey: How much in the construction finance and are you providing interstate moratorium if you can just talk a little bit about that?

Sudipto Sil: So that is as per the stage of construction, whatever is there as per stage of construction. For example in LRD there is no question of moratorium.

Roshan Chutkey: Not in LRD I am talking about construction finance?

Sudipto Sil: Construction finance whatever is the normal process that we are following.

Vinay Sah: The disbursements are as per the stage of construction. So even if we sanction the 100 Crores.

Roshan Chutkey: But why is it coming to you are you offering him a lower interest rate?

Sudipto Sil: Sometimes depending upon the nature of the project but not always.

Roshan Chutkey: Thank you so much.

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

Bunty Chawla: Thank you for giving the opportunity and I am sorry if I am repeating the question just a data point if you can share it. Incremental yields for the quarter as well as the incremental cost of funds?

Sudipto Sil: Incremental cost of funds was around 8.53, incremental yield was around 10.3 or thereabouts.

Bunty Chawla: 10.30.

Vinay Sah: 10.37.

Bunty Chawla: Similar number for the Q3.

Sudipto Sil: I will give it to you later on. Right now I am not having it immediately.

Bunty Chawla: Lastly on the stage II assets 4.38% which you have given can you share the bifurcation between the two individual as well as the developer portfolio within that?

Sudipto Sil: See, it is more or less levering the GNPA ratio also in the bifurcation of the stage I to III of the project and the builder.

Bunty Chawla: So similar session, which we are seeing gross NPA will be in stage II itself?

Sudipto Sil: Yes.

Bunty Chawla: So any thought process if you can share what steps we are taking so that this stage II should not move to stage III?

Sudipto Sil: That we had just discussed if you want we will just give.

Vinay Sah: Yes, I had shared with you regarding formation of the taskforce.

Vinay Sah: Thank you Sir. Thank you very much.

Moderator: Thank you. Ladies and gentlemen due to time constraints that would be the last question. I now hand the conference over to the management for their closing comments.

Vinay Sah: Thank you for participating in this. This particular quarter, which was followed by Q3 wherein there was a lot of liquidity problem, but this particular quarter the company has been able to do fairly well I would say in most of the parameters. We plan to build further on the income parameters in the coming quarters. NPA, the asset quality front also we are very much concerned with the increase in the levels but as I said before the taskforce has been formed and we are quite sure that the levels will again come down to previous levels by couple of quarters. Going ahead the company plans to widen its spread. We would again like to strengthen the DME channel so that that contributes more, the disbursement growth as also the loan book growth we are targeting for the next fiscal at around 15% to 16% in excess of that. Thank you friends. Thank you very much.

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