Transcript

Conference Call of LIC Housing Finance Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Bharathi, moderator for the conference call. Welcome to LIC Housing Finance Limited Q4 FY2021 earnings conference call. As a reminder, all participants 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 * and then 0 on your touchstone telephones. Please note that this conference is recorded. I would now like to handover the floor to Mr. Praveen Agarwal of Axis Capital Limited. Thank you and over to you sir.

Praveen Agarwal: Thank you Bharathi. Hello everyone and welcome to this earnings call. Today we have with us Mr. Y. Viswanath Gowd, MD and CEO of LIC Housing and Mr. Sudipto Sil, CFO to take us through the results. I would request Mr. Gowd to give us the key highlights of the results, post which we will open the floor for Q&A. Over to you Mr. Gowd.

Y. Viswanath Gowd: Thank you Praveen. Thank you Praveen. Very good morning to everyone of you. I also welcome you all to the post earnings conference call of LIC Housing Finance Limited. As you are aware LICHFL has declared Q4 FY2021 results yesterday. Before beginning, I wish you and your near and dear one's good health and safety. I also actually suggest the team of our LICHFL for current quarter, stay protected and get vaccinated.

Prior to detailing the operational aspects, our numbers for the quarter, I would like to highlight the strong surge in recovery from the effects of the pandemic and ensuing lockdown, which was witnessed in Q3 and more specifically in Q4 of FY2021. This had come under the back of significant buoyancy in the economic activity during the period and our elevated hope for sustained recovery, including in-housing and real estate. Since April, however the situation changed rapidly with emergence of second wave of the pandemic, with lockdowns and restrictions being reimposed across various parts of the country, plunging the economic recovery again into uncertainty. The graph of recovery will continue to hinge on the pace of vaccination and containment or prevention of future resurgence of the pandemic.

The quarter under review, that is Q4 FY2021 has been the best Q4 for the company with disbursements improving month after month. For the quarter we have recorded 97% growth in disbursements, the highest ever in the recent, actually several years. With the individual home loan segment recording 114% growth year on year, the growth in disbursements was almost uniformly spread across the country in all the regions, with affordable housing accounting for more than 34% share in disbursements. Lending rates continues to be benign and incentives like stamp duty reductions also aided in improving the buyer sentiments.

The financial highlights for the quarter are as follows. Total revenue from operations is Rs.4968 crores as against Rs.4920 crores for the corresponding quarter of the previous year. Outstanding loan portfolio stood at 232003 crores against 210578 crores as on 31st March 2020, reflecting a growth of 10%, out of which individual home loans portfolio stood at 180665 crores against 161840 crores, it is up by 12%. We are witnessing a steady improvement in asset growth every quarter for the past two quarters. Total disbursement for the quarter was 22362 crores, as against 11323 crores for the Q4 FY2020. Out of that disbursement in the individual home loans were 19010 crores as against 8877 crores for the Q4 FY2020, with a growth rate of 114%.

Business under Prime Minister Awas Yojana CLSS category continue to remain strong with nearly 34% retail disbursements coming in this category. Our mobile app HOMY, which has already crossed a million downloads has really helped us garner new loan applications of over 2012 crores during the year. On the net interest income front, NII was 1505 crores for the quarter as against 1134 crores in Q4 FY2020, with a growth of 33%. Net interest margin for the quarter stood at 2.66 as against 2.17 as on Q4 FY2020. Profit after tax, PAT, for the quarter stood at 398.92 crores as against 421.43 crores for the same period previous year. For the full year PAT was at 27734 crores against 27401.84 crores for FY2020, recording a growth of 14%. Our board also recommended dividend of 425%.

Asset quality is an area of highest priority, subsequent to the vacating of stay by the Honorable Supreme Court, we have recognized the NPAs very stringently, which has resulted in a sharp uptick in the stage three assets of the company. This has been an unprecedent situation, which has led to the drastic increase in the NPAs due to intermittent lockdown and the stoppage of activities, economic activities during the year due to the pandemic. We have set up a task force at all operating office levels to ensure that there is an active follow up of all these accounts. In terms of asset quality, the stage three exposure at default stood at 4.12% as against 2.86% as on 31.03.2020. In the past year, we had increased the provisions gradually taking the total provisions as on 31st March 2021 to 3971.42 crores. It reflects a provision cover of 42%. This includes 520 crores for COVID-19 related provisions, with nearly 985 crores provision in Q4 itself, including the __**06:35**__ impairment reserve for effecting one-time restructuring under RBI guidance.

We have been very closely focusing on the collection efficiency and it constitutes around 98% from all the regular borrowers. On the funding side, we have witnessed a significant reduction in overall cost of funds by 30 basis points during Q4 FY2021 and 115 basis points for the entire year FY2021. Incremental cost of funds has also come down significantly and it stood at 5.15% for the quarter. Net interest margin for the quarter stood at 2.66 as against 2.17 over Q4 of FY2020. The funding environment and the liquidity conditions remain quite favorable for the company. For the full year, the incremental cost of funds was 5.62. Full year NIM was stable at 2.37%. During the quarter we successfully raised 800 crores in tier-II bonds towards improving the capital position.

Then Project RED in association of BCG group has also be progressing quite rapidly and some projects, especially in the area of CRM, video KYC, video __**07:52**__ has already been rolled out. I have mentioned in our earlier interactions, we believe after completion of the project, in about one and a half years' time from now, the company will be digitally transforming to the highest level amongst, and it will be the best amongst the entire class in industry.

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

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

The first question comes from Mr. Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Hi sir. Hope you are all well and safe at your end. Sir, firstly in terms of the asset quality, can you just give a sense in terms of the incremental spread? How much is coming in from the retail side and how much is coming in from the corporate developer? So, what is the outstanding number now in terms of GNPA for retail and developer?

Y. Viswanath Gowd: As far as NPAs are concerned, the bifurcation you wanted for both what is for retail as well as for developer loans. For the Q4 or you want for the whole year?

Kunal Shah: As of March, what is the outstanding number?

Y. Viswanath Gowd: As of March what happened, if you look at the entire portfolio, in that NPA from the project, individual housing loan it is around 1.89% and non-housing individual, it comes around 5.82%. And then project, project comes to 18%.

Kunal Shah: Individual housing is one point?

Y. Viswanath Gowd: 1.89. Project is 18%. Total comes to, overall, it comes to 4.01.

Kunal Shah: Okay. And in terms of the project, so whatever has got restructured, you already told us 2800 crores in now NPA and over and above that there is a restructuring of 2400. So, there is no overlap between the restructured and the NPA number or stage three number in the project side? This will be like cumulative 18 plus 15 odd percent?

Y. Viswanath Gowd: No, all OTR are in stage one only. They should become eligible for that OTR, that is the thing. So, they are all performing assets only and up to date. They are not a problem.

Kunal Shah: No sir, the only thing is when we look at the stage one provisioning, that number was still low. So, if all restructured numbers are in stage one, then that provisioning was not getting reflected towards the restructured accounts. So, is the impairment allowance which has been taken from the net worth?

Sudipto Sil: No actually Kunal, the way it is to be done is that for the OTR accounts, there has to be a separate provisioning for impairment reserve and that has been also provided out of P&L. That is not taken out of reserves. So, whatever incremental provisioning you are seeing in fourth quarter, that is almost 980 odd crores, out of that the OTR related provisioning, which is required for the creation of impairment reserve is also included. No, that is not an issue of provisioning, that is creation of an impairment reserve, that is why it was not shown in the provisioning figure.

Kunal Shah: Got it. So, maybe it will still pass off stage one and maybe provisioning would be there. But, when we are showing this ECL representation in the slide, it is not included within that?

Sudipto Sil: No, it is not included within that, but separately that impairment reserve is also created out of P&L. There is no separate balance sheet coming here.

Y. Viswanath Gowd: Yeah, we have done some 204 crores also.

Sudipto Sil: Yeah, 284 crores, that is there in the disclosure also, you will find that number, 284 crores.

Kunal Shah: Would it be fair to assume that stage one, stage two, stage three ECL provisioning which is there of 117, 37 and 3800, this is over and above that. It is not included in any of these stages at all?

Sudipto Sil: Which one?

Kunal Shah: In the presentation, what is given in terms of the provisioning, 117 crores towards stage one, 37 crores towards stage two and 3800 towards stage three, so this 284 is over and above this, it is not included…...

Sudipto Sil: Correct, correct, because kindly again try to understand that is an impairment reserve and not a provisioning.

Kunal Shah: Sure. Just in terms of, last question, in terms of overall outlook, so currently we are getting into second wave, how are we seeing? Last time we guided for some __**13:40**__ and restructuring. Maybe obviously things were like, it was quite early at that point in time, it came in relatively higher. But, how are we looking at it now getting into second wave, what could be the estimated restructuring or what could be the further steps looking at the collection efficiency?

Y. Viswanath Gowd: Now currently as already mentioned in the letter also to you that, we are all having now, the regular accounts, the collection efficiency is more than 90%. And that is also every month we are getting the collections. And going forward our teams are in place, specially like last year we came across more or less same situation when the moratorium was announced last year also. We formed what we call the taskforce, we call them NPA warrior teams. These teams what happened is, these people actually get in contact with the customers on regular basis and see that the accounts are updated regularly, number one. Number two, now what happened, we are almost the __**14:38**__ facility we have now enabled like anything. So, earlier that __**14:42**__ was not there with us in the last year, so that is giving us a good result. And we are also encouraging online collections now. People sitting at home can pay. So, by using all the methods, certainly there is good improvement. Even accounts in stage one, even stage two accounts also can be brought into stage one. So, with all these things we are sure that further slippage may not be so significant going forward, like what happened in the earlier years may be there.

Kunal Shah: And restructuring also, last time it was corporate and major is now under restructuring, so that would also not come through?

Y. Viswanath Gowd: Yeah, what happened now is, of course restructuring certainly we have to provide for all who are eligible as per the rules. And we are now enabled through our website also, a template format is there. So, it is a web enabled process and anybody can log in and then they can opt for restructuring. And I agree, as you say some uncertainty, again has come now, because of this second wave. This time around, the impact maybe what we feel maybe lesser than last time. And further OTR request may also be there, because you can't totally deny that when OTR has to be extended for the eligible people. So, that maybe up to another 1% must be there more or less, because some people existing also now ask for extension of time up to the limit of within two years is permitted. And all put together, I think up to 1% of the loan book size that also can be there, as far as our indications are concerned.

Kunal Shah: Sure, thanks a lot. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. Participants are kindly requested to restrict with one question in the initial round and may join the queue for further questions.

Next question comes from Mr. Aditya Jain from Citi Group. Please go ahead.

Aditya Jain: Thank you. I just wanted to understand the higher provisions in the quarter. So, you mentioned the provisions on restructured loans, which are not coming in the ECL provisions of 3970 crores. So, that is one component. And then within the ECL provisions some coverage has increased on stage three and some minor increase in stage one plus two coverage also. So, is there a plan going forward to build up the coverage further in either stage three or stage one plus two loans or is this level of coverage now they are stable like this?

Sudipto Sil: Actually, the present level of coverage as we have said, it has come on two different platforms. One is of course the provisions required as per the ECL mandate. So, that has been done. And obviously the stage three assets have increased significantly. So, to that extent the outlay has also increased. Now, over and above this, the one-time restructuring, the provision that has to be made out of the P&L account that we have made, about close to 300 crores. But, that is reflecting in the impairment reserve. So, in a way that is a reserve. Though it is a reserve, this is also towards creation of an additional buffer for those accounts, which probably we are not counting in the ECL provisioning cover. So, you can look at it, for example these are all standard accounts. Earlier there used to be a concept of standard assets provisioning. So, somewhere you can relate it to this impairment reserve. The overall coverage when you see, the overall coverage though it is mentioned at 42%, actually if you add the impairment reserves figure, though it is a reserve and again we are saying that it is not a provision and it is a figure. But, if you add that notionally also that gives that additional buffer for these accounts.

Aditya Jain: In terms of the coverage required, you are saying that on the existing side there is enough and on whatever new structuring happens, obviously that might need more provisions. But, on eth existing there is enough coverage?

Sudipto Sil: Further, we have also increased the ECL provisioning on stage one and also stage two. And in stage two, the provisioning cover which has been done is not too small. I wouldn't say it is very high, but it is fairly good.

Y. Viswanath Gowd: Slipping into stage three has been taken care of adequately current quarter. So, with that I think further slippage into stage three, even stage three some accounts maybe there, but now it is protected with very good provisioning so far, for stage two itself.

Aditya Jain: Got it. And then on collection efficiency in May, you mentioned that regular accounts are more than, I think more than 90% collections.

Sudipto Sil: 98%.

Aditya Jain: Sorry, it is 98% May, is it?

Sudipto Sil: Yeah. 98%, that is the March figure, yeah.

Aditya Jain: That is the March figure. So, in April-May or May specifically…..

Sudipto Sil: It is more or less in the same range.

Y. Viswanath Gowd: Same range, it is 90% plus only.

Sudipto Sil: It is near about 98.

Aditya Jain: Okay. How would that look across the individual versus projects sir?

Sudipto Sil: For the regular accounts, it is more or less consistent.

Aditya Jain: Okay. Got it. Thank you. Those were my questions.

Moderator: Thank you sir. Next question comes from Mr. Anuj Singla from Bank of America. Please go ahead.

Anuj Singla: Thank you for giving me the opportunity. First question is, Sudip sir, when you talk about the impairment reserves 204 crores, this is the total amount sitting on the balance sheet as of now? And this is the first instant we have created it, is my understanding correct?

Sudipto Sil: Impairment reserves, that regulation for creation of the impairment reserves has come only in the year FY2021. Prior to that that impairment reserves concept was not there.

Anuj Singla: Okay, understood. And this is beyond the ECL provision which is there on the balance sheet, that is also correct, right? My understanding is correct?

Sudipto Sil: Yes, yes, that is a reserve. This is a provision and that is a reserve.

Anuj Singla: Okay, understood. Secondly, can you talk about the capital raised? Now, you already raised 800 crores and there is obviously a preferential allotment to LIC. How do you see your capital adequacy and given that the growth is coming in a big way, do you think the need for another capital raise over the next six to twelve months? How should we look at that number?

Y. Viswanath Gowd: As it is now if you look at it, the other day our board has approved for the capital infusion by our promoter, with almost allotment basis shares of 4.54 crores. So, really this will give lot of ample scope for us to further expand and also to leverage all our operations better. So, even last year also if you look at it, we raised lot of our tier-II capital also. So, this year also going forward certainly whenever possible, certainly we will look into the capital __**22:15**__ tier-II capital acquisition also.

Sudipto Sil: Tier-II is obviously a debt. So, we have raised about 800 crores in Q4 and Q3 also we have raised about 1000 crores. So, 1800 crores of tier-II we have raised. Now, in the current financial year, as you are aware the promoter is infusing about 4½ crores shares, whatever it translates to in terms of the SEBI formula and all that pricing, I am not getting into it. But, this should substantially address the capital requirement and further requirement of capital, looking at future growth expectations, obviously the board will take a decision at the appropriate time the way they have taken it this time also.

Anuj Singla: And how much further scope of tier-II capital is there Sudip sir, where the buffer we can still utilize in this year?

Sudipto Sil: Tier-II? Tier-II, the headroom is significantly there. There is significant headroom for that.

Anuj Singla: Okay. We can still raise more tier-II in the coming….?

Sudipto Sil: Yeah, you can say almost like on tap we can go, there is significant headroom. There is no upper limit for tier-II basically.

Anuj Singla: And lastly sir, can you talk about disbursement and growth trend in April and May. We hear, obviously there has been lot of disruptions. Some kind of color you can provide would be helpful.

Y. Viswanath Gowd: Which one, the growth in books?

Anuj Singla: Disbursement and loan growth for April and May.

Y. Viswanath Gowd: Yeah. Last year really even if you see, similar situation was there more or less in Q1 and Q2; but, after Q2 what we have proved is, certainly we have recovered and then Q3 and Q4 we gave good results. So, more or less the same sort of bounce back with more intensity may be there this year we are seeing. So, once the situation becomes stable, I think more or less it will be lot of pent-up demand is there again across all the regions. Even in the tier-II, tier-III, good demand is there. Certainly, we are very much positive. And then challenges are there, but opportunities are more than that, not an issue.

Sudipto Sil: In fact, in the current year April and May, as far as the run rate is concerned, we have already crossed last year's Q1 disbursal. Of course, last year's Q1 numbers itself was depressed. But, certainly the upside is very much visible.

Anuj Singla: Understood. Thank you very much.

Moderator: Thank you sir. Next question comes from Mr. Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you sir for taking my question. My question is to Sudipto sir. Sir, while we ourselves acknowledge that things were rapidly recovering until March and only in April we kind of saw the second COVID wave and sudden lockdowns across the country. Then when we kind of report our March number, why has there been such a sharp deterioration in asset quality? If I just kind of try to add up some of the retail and project GNPA numbers that you shared earlier in the call, I am seeing that there have been about 320 crores in flexibility in your project, on the developer book. Can you give some qualitative color around, has there been a lumpy exposure, which has kind of slipped? Or, which are some of those developers which have potentially slipped in the fourth quarter and why were they not restructured, if at all a stretch was there? And likewise on your retail, on the individual book, I think incremental GNPA is about 3300 crores. Where is it coming from? What are the kinds of customers who have not been able to repay? And what really changed in that January to March quarter is my first question?

Sudipto Sil: If you look at between December and March, that is Q3 over Q4, actually the increase in GNPA on the project side has been not very significant. It is around 300 odd crores. Whatever it was as on December, from December to March, the increase has been around 300 odd crores on the builder loan side. Other accounts, so the NPA issue as on December for the project loan was around 16% and now it is 18%. And the book has almost remained static.

Abhijit Tibrewal: Right. So, any particular project or any particular developer which was lumpy in nature, which kind of slipped or across how many projects or developer accounts it has slipped, this 300 odd crores?

Y. Viswanath Gowd: Who are all eligible under the OTR, already they are made available. Actually, what we did at that time, __**27:10**__ was going on, even all the benefits like ECL, ECLGS, SWAMIH funds, all things were there last year. So, wherever they are fitting into that, already who can be given the benefit, was given. So, with that project I think in the developer segment, I think almost all that is taken care. As you were mentioning in the Q4, suddenly because the provisioning is high, it is because of our, I already mentioned also, the Honorable Supreme Court judgment made consider assets under different classification. So, once that got lifted, immediately we recognized whatever actually it is meant for, accordingly treatment is given and provisioning, as far as the retail segment is concerned.

Abhijit Tibrewal: Sir, am I right to kind of conclude this that till the time there was a Supreme Court dispensation and assets were actually not marked as or tagged as GNPA, we were not really providing over the last let's say two quarters and only after they had been kind of tagged as GNPA, we have gone ahead and made the requisite provisions during the quarter?

Sudipto Sil: No, I wouldn't say it that way, if you look at last year also progressively there was a provisioning made. Of course, the exact impact of it could not have been anticipated earlier, because we were getting intermittent payments from these accounts. It is not that payments were not being received. Intermittent collections were happening from those accounts. But, technically if you go by the definition of NPL, obviously when the Supreme Court stay was in effect, then obviously there was a standstill and even after it was removed, even if it has fallen, slipped by even by one day, it has to be qualified as a NPA.

Y. Viswanath Gowd: Moreover, most of them would have slipped from stage two to stage three, that was also a trigger.

Abhijit Tibrewal: Okay. And sir, just one last question here. Why is our provisioning policy, specially the coverage that we maintain on stage one and stage two and stage three is so volatile? I remember until last quarter we used to say that whatever provisions that we had made on stage one and stage two assets, they are adequate. And suddenly this quarter we feel the need to kind of improve the provision coverage ratio. While Sudipto, you yourself had kind of acknowledged sometimes back that these OTR assets which are sitting in stage one, they have been, they already have a separate provision reserve. So, I am assuming that this incremental stage one and stage two provisions that we have done in the quarter has nothing to do with restructuring as such?

Sudipto Sil: No, no, this is actually a different method altogether. What has happened in the last one year is that we also had to look at the valuation of the underlying assets and we have conducted a very extensive valuation and revaluation of the underlying assets. On the side of caution, wherever we felt that even there is a marginal decline in the value of assets, we have gone ahead and made a provision, that is on the side of conservatism and that is the reason why you are seeing the stage one, stage two, ECL provisioning being improved because, we have conducted a revaluation of all the underlying assets in the context of COVID. Now, it is very much possible that after the COVID, once the pandemic gets over and the COVID situation improves, it could be possible that the underlying value of the securities and the underlying value of the properties might also increase. But, to be on the more conservative side, the management thought that it is prudent to do a comprehensive revaluation of the properties wherever we felt that there could be a reduction in property prices or property values or security values and we have gone ahead and made a provisioning, adding on the side of conservatism.

Abhijit Tibrewal: Okay, alright. That is very helpful. If I may just squeeze in just one last question here, what is the quantum of NCD that is coming up for maturity and when you get repriced in this year? Again, the reason I ask here is while we have demonstrated about 20 bps expansion in spread in FY2021, just trying to understand what is the quantum of liabilities which can potentially get repriced and to that extent what is the proportion of bad books on the asset side, which will get kind of get repriced at lower interest rates and where could we see this spread stabilizing in FY2022?

Sudipto Sil: As far as the NCDs coming up for redemption, not repricing, redemption, is about 25000 crores to 28000 crores during the entire financial year. So, some of it has already gone off the books in the last two months. And obviously the assets are, predominantly on the floating rate side.

Abhijit Tibrewal: So, large part of the bad books has already been repriced?

Sudipto Sil: Yeah, it has already been repriced. Obviously as matters stand now, probably it looks like there may not be any further reduction in interest rates in the economy, as matter stands now. Of course, situation, it is every dynamic thing. So, situation may keep on changing.

Abhijit Tibrewal: Sure, that is very helpful. Thank you so much and wish you the very best.

Y. Viswanath Gowd: Thank you. Thank you very much.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. Participants are kindly requested to restrict with two questions in the initial round and may join the queue for further questions.

Next question comes from Mr. Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Hi, congrats on the quarter. Most of my questions have been answered, but I have a few follow up. Sir firstly, what percentage of our loans come from Maharashtra and given that the stamp duty cuts are now over, how do we see growth sort of trending after the second wave?

Sudipto Sil: Mr. Piran, can you repeat, your voice is not very clear, if you can speak closer to the mike.

Piran Engineer: Am I audible now? Is it better?

Sudipto Sil: Yeah, it is better.

Piran Engineer: So, my question was that what percentage of our loans comes from Maharashtra and now given that the stamp duty cut is over, what sort of growth do we foresee let’s say not in the next three months, but after the second wave is over?

Y. Viswanath Gowd: Last year….actually I will tell you the whole year we had very good share from the state of Maharashtra I think more than 14% around we got, then the stamp duty waver also really helped us a lot. That was the quantum of our share from Maharashtra last year. Similarly in Karnataka also it was there. Like that what happened, looking forward now for the current year also we expect, supposing we are without stamp fee or stamp fee waver also, pent up demand will suddenly be there and going forward in the quarters to come more or less robust growth we will see like last time or even better than last time.

Sudipto Sil: Stamp duty is certainly is one of the triggers or one of the sweeteners but more importantly if you look at the affordability index in terms of stable property price and low interest rates, those situations still remain today.

Piran Engineer: Okay fair enough. Sir my next question is on the asset quality bit. Now half of our builder NPLs are under the SWAMIH fund. I recall last we had mentioned it was about 1400 crores. Now what is the progress there because I believe a few projects had been completed and the key is handed over to the home buyers. So why aren't we seeing recoveries on that front for us?

Y. Viswanath Gowd: SWAMIH funds I think only five….in that three almost got it over last year itself. So I think that acquisition and all is naturally due process…it is in the process actually.

Sudipto Sil: SWAMIH fund the process is that first of all large number of capex has been identified, and slowly they are taking the NOC and all that; the process takes a bit of time but SWAMIH fund does not guarantee immediate upgrade. SWAMIH fund is only a last mile funding which helps to recommence and restart the project and that has already started as MD sir mentioned, in total five accounts, those entities or those builders have received the fund….last mile funding from the SWAMIH fund managed by __**2:23**__. So totally 5 such cases.

Piran Engineer: Out of that MD sir said three has started or something….so in three construction has again resumed and started getting collection?

Sudipto Sil: Correct.

Piran Engineer: So three out of those five have started paying you back….is that the right way to think about that?

Sudipto Sil: I would say that the collection and the fund size had increased, project has started. It has just happened to mature some two quarters or three quarters back.

Y. Viswanath Gowd: For that guidelines are there what share we get….the agreement whatever it is we have to give them.

Piran Engineer: Okay got it. And sir last question for Sudipto, it is a bit technical but what are the fee and commission expenses in the fourth quarter that was almost equal to FY20 level?

Sudipto Sil: I got your query. There has been some kind of a one-off addition. I think it is better to look at on a full year basis rather than a quarterly basis. So this Q1 there has been re-writing of a portfolio of retail loans with some entity for which we had collected some one time fees. That is totally what is distressing. On a full year basis you should see that should be comparable to the disbursement growth.

Piran Engineer: No these are fee and commission expenses that we pay out to ….

Sudipto Sil: I am talking about the income.

Piran Engineer: No, I am talking about the expense. Last year the full year it was 54 and this quarter alone it is 55 crores.

Sudipto Sil: That is because of the amortization.

Piran Engineer: Amortization of what sir?

Sudipto Sil: See what happens is that whenever there is a closure of a loan or a re-writing of a loan, with low rate of interest, then whatever you have collected as fee for those accounts will also have to be re-calibrated and that expense has to be taken in the expense column to reflect a EIR based computer thing. This is mostly because of index adjustments.

Piran Engineer: Okay, is it fair to say that a lot higher proportion of loans were prematurely closed this quarter if I just think about it that way. Like our balance transfers were much higher this quarter than it was last year.

Sudipto Sil: No there probably the fee collections were higher.

Piran Engineer: Okay fair enough sir. Thank you and that's all from my end. Thank you and all the best.

Moderator: Thank you sir. Next question comes from Nishant Shah from Macquarie India. Please go ahead.

Nishant Shah: Am I audible now?

Y. Viswanath Gowd: Yeah.

Nishant Shah: Thanks for the opportunity. One quick clarification. What you mentioned in the previous question was that five of the SWAMIH fund projects have been approved but there are still overall about 10 or 12 projects…

Sudipto Sil: Those are in pipe line.

Nishant Shah: Okay so the total amount is about 1400 crores but those are yet to go through that due diligence process and get….?

Sudipto Sil: Yes and in one of the cases the builder has opted out of the SWAMIH because now he is more comfortable with servicing it himself only. For example, ECLGS has also offered. So he says he has opted for the ECLGS route ratther than go for the SWAMIH fund route.

Nishant Shah: Understood. Now, I have a couple of questions. First on provisioning requirements; we have about 2% or 1.89% of home loans….like retail home loan NPLs so I understand these are very low ticket granular homes like low ticket size, low LTV. What is the LGD that we build when we calculate the ECL for these products? Should it be like a single digit percentage because the overall stationary provision that we hold is about 40%, so I am just curious what loss given default goes into the calculation of the home loan component of the NPLs.

Sudipto Sil: The home loan component of the portfolio in terms of LGD, both CD and LGD will certainly be much lesser than that of the builder of the corporate accounts.

Nishant Shah: Correct, is it possible to quantify? Should it be like hypothetically less than 10%?

Sudipto Sil: You are talking of the LGD?

Nishant Shah: Individual home loans?

Sudipto Sil: Yes.

Nishant Shah: So basically the implied kind of provision coverage on the developer loans is probably significantly higher than 40% and the coverage on basically the home loan is less than 10%. Is that a correct interpretation here right?

Sudipto Sil: The LGD _**8:06**__ is a fairly complex one. It cannot directly relate to the exact provisioning because there are other things also which was there in terms of the value of security etc.

Y. Viswanath Gowd: Then collateral also.

Sudipto Sil: Value of collateral is also built into the ECA Model.

Nishant Shah: Okay understood.

Sudipto Sil: So that will not probably give you a correct indicator.

Nishant Shah: Fair enough. What I was essentially trying to understand was that when we think about….

Sudipto Sil: Logically the LGD for retail accounts….home loan accounts will be lower than corporate or builder account. That is the logical explanation which is fitted into the model. It is not only the LGD which matters but there is also a play of the value of securities which varies from account to account

Nishant Shah: Okay and the second question is on growth. We have seen very strong growth in 4Q probably helped a little bit by the stamp duty cuts in Maharashtra and Karnataka. But now already almost three months or two and a half months into 1Q, could you tell us probably some of the disbursement strength has kind of sustained or has there been some bit of tapering down after the very, very strong kind of 4Q which had some bit of fronting of growth. How are the trends looking like in the last 2-1/2 months? Are they sustaining, that's the question.

Y. Viswanath Gowd: Currently if you look at….of course last year as you say the Q4 really was the best in the last several years of the company Q4 concerned. Now in the current year specially after the pandemic second wave, April and May, of course overall if you look at last year Q1 was not that much so already we had crossed the figure not a problem. Only thing is now going forward you were mentioning about the stamp duty waver that helped us a lot last year and the Q2 onwards once the situation slightly improves, we are very positive that there will be a good re-bounce as far as the volumes are concerned, specially in tier II and tier III cities and affordable segments. And also now the favorable fact is the rate of interest is very, very low on the worse side and most of the house is affordable. So with this I am very clear that going forward we may see the same sort of re-bounce this year also.

Nishant Shah: Okay is there any visibility to be able to give like a growth guidance in terms of a year? Like it is 15% by the end of the year kind of possible in terms of year on year?

Y. Viswanath Gowd: We certainly will keep up like last time. It will be in double digits certainly will be there, not a problem.

Nishant Shah: Okay perfect. I have a few more questions, I will come back in the queue, thanks.

Moderator: Thank you sir. The next question comes from Dhaval Gada from DSP Investment. Please go ahead.

Dhaval Gada: Hi actually I had two questions. On the first question where you replied to Kunal can you give the absolute GNPA for the individual and individual home loan separately the absolute amount for the fourth quarter and the third quarter because the numbers are not able to reconcile when I multiply as with the books, so if you could give the absolute number.

Sudipto Sil: No, the absolute number we will not be able to give because GNPA and stage three will be slightly different. There will be minor variations but what GNPA numbers are given, that is under iGAP. The ECL numbers if you are trying to find out from the ___**12:00**___, there will be minor variations. I am quickly telling you the numbers quickly note down.

Sudipto Sil: Project loan NPLs will be around 18% which will be a little less than 3000 crores. Then you have got the individual home loans which is about 1.9% or thereabouts. It will be around 3400 to 3500 crores. Then for the other categories the total NPAs will be say another 3000 crores. That is how you will get the total 9000 plus.

Dhaval Gada: Understood. That will include LAP and some others as well sir?

Sudipto Sil: Yeah, non housing individual, corporate etc. all from the project.

Dhaval Gada: Got it. And the second part is again on provisioning. So the 3971 includes all sort of provisioning right? It does not exclude any provisioning you talked about that is not in the 3971? Am I correct in my understanding or there is something more.

Sudipto Sil: At first let us kindly understand what you mean by "all provisioning?"

Dhaval Gada: Certain provisioning is not part of the calculations which we are missing. So the 3971 which is the ECL provisioning that includes all forms of provisioning whether it is impairment, or COVID excess whichever way it includes everything right 3971?

Sudipto Sil: No, again I am telling you, you are again confusing provisioning with reserves. Impediment reserve is not a provision. I had already clarified in one of the earlier queries….

Dhaval Gada: No problem, I will connect offline. That's fine. And just a final thing, on going forward basis how are we thinking about….if you look at directionally in the last three years we've seen consistent increase in individuals as well as non individual NPAs, individual side our performance gradually the delta difference has been much higher than the industry and even some of the prior years. How do you think going forward what will make the gap compress back to where we are 3/2017 period where our performance was in line with the industry. What's required there?

Y. Viswanath Gowd: NPAs? Looking forward now, individual housing loan segment is now our book also contains almost close to 80% from individual housing loan. As far as the recovery matters and concern in this group, our teams are actually….last year also we have put our teams, like NPA warrior team I told no? These people get in touch with the customer and ensure updation quite often, very, very frequently and we also enabled this time what we called e-match and online collections are also enabled. So with all that we feel that there may not be much significant downside as far as the recovery matters are concerned and the provisions also what were made now, more or less will be taken care not a problem. Even additional COVID impact also we have put some 500 crores into that.

Dhaval Gada: Okay sir, thank you.

Moderator: Thank you sir. The next question comes from Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Sir thank you for taking my question. It follows the earlier questions only. In terms of your retail NPL which we have seen, are you seeing part payment by customers and so on where we actually see that they are lagging behind and facing some temporary difficulty but they'll eventually come through, that's the first question. And secondly you answered the question about recovery. But just going back the underwriting itself, is our customer segment relatively weaker and so they are going through stress and that they will recover in a matter of time? Those are my two questions sir, thank you.

Y. Viswanath Gowd: First question what is it about? Some part we missed actually.

Vivek Ramakrishnan: In your non-wholesale customers even if they are NPAs are they making part payment and so on which is seen…?

Y. Viswanath Gowd: That is correct because what happens, people whenever they are having money what you call, OTR or whatever possibility you can avail I agree. Last year moratorium was also there. After moratorium ended what happened? People regularized accounts, (not clear) made for that. In India housing loans also what happened, there is a good uptick as far as the collection efficiency is concerned and even for the regular account now I am telling you the current trend also is more than 90% So that way we see that they become regular….in the due course once the pandemic all these unlock events all eased out. I didn't get the second thing.

Vivek Ramakrishnan: That's right sir….

Sudipto Sil: Actually these guys were, these borrowers were repaying till before the pandemic. So obviously the pandemic is something that is obviously unfortunate, unprecedented. So there could have been some impact of it, but till before that they were all people who were regularly servicing.

Vivek Ramakrishnan: Okay excellent sir, that answers my question. Thank you very much sir and good luck.

Y. Viswanath Gowd: Thank you.

Moderator: Thank you sir. The next question comes from Vikram Subramanian from Spark Capital. Please go ahead.

Vikram Subramanian: Hi sir, just a question on the LAP portfolio? What would be the quantum right now, the lease rental discounting and how is the asset quality behaving with us?

Sudipto Sil: Approximately 8000 crores.

Vikram Subramanian: That is the portfolio amount of Lease rental discounting. How is the asset quality behaving there sir, in terms of GNPA or the outlook?

Sudipto Sil: About 3% to 4% is the GNPA. There also what we mentioned in the previous call is that there is a delay in the rentals. It is not that it is completely stopped but it is coming, there has been slight delays on the rentals.

Vikram Subramanian: Okay got it. Just one clarification; I am sorry I might have just missed it but on the impairment reserve. The impairment that we have created does not flow through the P&L right? So the 985……

Sudipto Sil: No it has flown through the P&L. Again I am telling you. I think two, three times I have already clarified. That has flown through the P&L that is reflected in this Q4

Vikram Subramanian: So the 985 crores will include the amount that the 985 crores of provision that we have shown in the P&L will include the impairment reserve as well?

Sudipto Sil: Yeah.

Vikram Subramanian: If I remember the RBI guidelines that came out last year, I thought the impairment reserve was to be carved out of the reserve from surplus from the balance sheet which is why I just wanted to clarify.

Y. Viswanath Gowd: No, this is meant for only what we call….a specific purpose. That is why it is kept like that. You can't use it for any other purpose.

Vikram Subramanian: Okay so it does flow from the P&L. The credit cost includes this, okay that clarifies my doubt. Thanks.

Moderator: Thank you sir. The next question comes from Nidhesh Jain from Investec India. Please go ahead.

Nidhesh Jain: Thanks for the opportunity. In the non-housing individual segment our gross NPAs is pretty high at almost 6%, so how do we think about growth in this segment? If I remember correctly historically we have been saying that this segment has very share of salary; salary class so any particular reason that the NPA in this segment is higher for us?

Y. Viswanath Gowd: As far as this space, the total portfolio if you see in this segment not that much, maybe not even non-housing individual segment all put together small ticket not even 13% to 14% in the overall portfolio. But the way….after pandemic, I agree there may be some sort of slippages specially in big cities and tier II and tier III also. So taking all these things into account, we have also done re-valuation for all these assets at the end of this March also. So adequate provisioning has been made for all these things taken into account.

Nidhesh Jain: With respect to growth in this segment, what is the strategy going forward?

Y. Viswanath Gowd: As far as growth is concerned, normally our focus is on the individual housing segment only. As far as this segment, our portfolio is very, very less and moreover growth also we don't have much, last year also we had within 10% growth only not much.

Nidhesh Jain: Lastly, on the developer loan we have an NPA of 3000 crores and I think last quarter you mentioned that one of the accounts is likely to get resolved in Q4, so if you can give us some status on this 3000 crores of NPAs….what are the three, four major accounts and what is the resolution expected in coming financial year how many of these accounts we expect to get resolved in FY22?

Y. Viswanath Gowd: All are in different stage now. Even what we were expecting last time also did not happen because of some other reason. In the month of March and all we saw some stay and all happen, so all the accounts we are closely monitoring and I think now to come to a logical end it may take some more time. It might not happen too early in the next quarter and all, because many are in the NPLT and other (not sure) are there. So whatever is the legal position is there that has to continue and it may take time also. In the near future we don't have any idea that it will get over very fast.

Nidhesh Jain: Lastly sir, can you share the incremental funds the debt funds that we have raised in Q4FY21, what is the share of CP and market borrowings and bank loans in that incremental fund?

Sudipto Sil: Incremental we have raised about 20…., the market borrowings we have raised about close to 17000 crores out of which about 3500-4000 was through CC and the rest through NCDs.

Nidhesh Jain: Sure sir, thank you.

Moderator: Thank you sir. The next question comes from Prakhar Agarwal from Edelweiss. Please go ahead.

Prakhar Agarwal: Hi sir just one question. When I looked at….if I heard you right probably the restructured book that we have been talking about is entirely in stage one. So what explains that 6% plus stage two that we are having and if you could just give your stage two and position in terms of how much of that was developer and individual loan book figures?

Y. Viswanath Gowd: Can you please repeat? Your voice was a little feeble. Can you please speak louder?

Prakhar Agarwal: We made a comment that probably all the re-structured books that is there is sitting in stage one. So what explains the stage two of around 6% odd levels and if you could give your stage two composition in the form of developer and individual both.

Sudipto Sil: Stage two accounts have been there earlier also not that stage two accounts have come now, earlier also there were stage two accounts. For example now, in stage two accounts in the retail will be 4.9% approximately and overall will be around 6%.

Prakhar Agarwal: But this sort of stage two numbers is a steady state numbers or because what we have seen earlier probably December hovered around 4%, while the stage two numbers had been there.

Sudipto Sil: Prior to the pandemic also if you see the stage two has been in the range of 4% to 5%. That time the high would have been around 2%...(just let me complete). If you see prior to the pandemic, may be 1-1/2 years or six quarters back if you see, stage three would have been around 2.5 or thereabouts. Stage two would have been between 4% to 5% and balance about 91%, 92% would have been in stage one. So stage two if you see, stage two is more or less in that ballpark range Sometimes it is 5%, in fact one quarter back it was closer to 7%.

Prakhar Agarwal: So this is broadly the steady state numbers that we could expect around 4% to 6% as stage two numbers….

Sudipto Sil: Yeah stage two can get upgraded to stage one also.

Prakhar Agarwal: Okay and last time we admitted that probably 8% to 9% of our developer book is in stage two; will that number be same as of now or probably has decreased?

Y. Viswanath Gowd: Developer book I think is not okay. Whatever is the NPA we have made provision for that and then developer book stage two….not that much of percentage it is a little bit less, not that much. It is also more or less hovering around 10% to 15%. Developer portfolio itself is less, around 7% in the overall book size.

Prakhar Agarwal: Okay. Just one more question, just in continuation with the others. So what explains this sort of divergence we are seeing at least on core home loan side in terms of (not clear) NPA asset quality performance when I look at industry and yourself, given that customer segment and the ticket size that we operate (not clear) this sort of divergence?

Y. Viswanath Gowd: Going forward we are very much hopeful and also positive that because of vaccination and again in and out of locking and unlocking going on in a big way, I think there will be very good turnaround in the Q2, we are able to foresee. I think now the pent up demand will also be there and in addition to that low rate of loan, interest rates are very low, then again affordable price are there. With all these things we are very hopeful that there will be a good demand as far as our disposals are concerned. Regarding recoveries also, what happened, as already I talked to some of your people that we are having very good mechanism; a group of teams are there working at all levels. These warrior teams, get in touch with the customers and see that accounts are updated quite often. So what happens, they don't slip into either stage two or stage three and then OTR 2 is also another instrument given. So this also will be made best use of by all those who are eligible. So with that suddenly there will be very good recovery in the days to come, that's what we see.

Prakhar Agarwal: Two questions in continuation. One is while we talk about future prospect and we talk about recovery; the nature of the question is why is there a such a (not clear) in terms of slippages to start with. We may talk about recovery, we may talk about the fact that it will not happen again in the future, but why has (not clear). And the second part is in terms of OTR, what type of portfolio do you expect in retail side to come in OTR 2….any type of number.

Y. Viswanath Gowd: OTR 1, really almost close to 1.5% of our book was almost under OTR 1, both segments put together. Now I think in OTR 2 (not clear) people may avail of, even if the maximum loan is 50 crores probably we may not operate in the segment very well. So for the (not clear) house loan comes people may go for (not clear) of terms as far as these OTR 2 is concerned. Another 1% may add to that going by our earlier past experience, another 1% of the book may add to OTR 2.

Prakhar Agarwal: Okay and then my earlier question, why is slippage higher or in terms of divergence between you and industry?

Y. Viswanath Gowd: A bit louder please.

Prakhar Agarwal: Am I audible now?

Y. Viswanath Gowd: Yes.

Prakhar Agarwal: We talked about recovery, we talked about the fact it will not happen in the future, but I am just asking why is it happening in terms of our slippages of asset quality being most of them at least in pure home loan segments most of them in industry. We may have a recovery team, we are making them to recover, we may say that it will not happen in future but what exactly has panned out till date that this sort of (not clear) has been reported vis-à-vis industry given the customer segment and all (not clear).

Y. Viswanath Gowd: If you see in the last year, positioning was made only because….last quarter we had to make provision because of Supreme Court judgment was there. Once it is lifted, we have to re-consider all the loans at the appropriate classification was made and due treatment was given for that. That's why in the Q4 generally the provisioning has gone up, number one. Number two, if you look at the developer loans already were taken care of. So now looking forward, even from here I think there is not that much of worry as far as the asset quality is concerned going forward.

Prakhar Agarwal: Thank you so much sir.

Moderator: Thank you very much sir. Ladies and gentlemen due to time constraint, that will be the last question for the day. Now I hand over the floor to the management for closing comments.

Y. Viswanath Gowd: I thank our organizers as well as all the participants. Really the Q4 of last year….if you look at the whole of last year in terms of disbursement it was a very good year and then going forward, also we are very positive as far as the volumes are concerned in disbursements. Asset quality will suddenly be improved; there will be a lot of scope in that one and our teams are working for that. And then the capital infusion and all these things suddenly will give a lot of scope to operate better and also to have better leverage. This year we would like to consolidate ourselves and further strengthen our ratios what we are focusing and suddenly there will be a remarkable improvement in all the operating ratios. Work improvement will be there and then our digital transformation also will suddenly give us a lot of value addition going forward in terms of customer satisfaction and also TAT and all other matters are concerned. This year, 19th of June is the foundation day of our LICHFL and so on this happy occasion we also extend greetings to everyone of you and we once again rededicate ourselves, our team members and all in LICHFL, we will re-dedicate once again to our customers and ensure that once again we will be having very good brand value in the market again. Thank you.

Moderator: Thank you sir. Thank you everyone. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant day.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.