"LIC Housing Finance Limited
Q2 FY2019 Earnings Conference Call"

October 30, 2018

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Moderator: Ladies and gentlemen, good day and welcome to the LIC Housing Finance Q2 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. Praveen Agarwal from Axis Capital Limited. Thank you and over to you Sir!

Praveen Agarwal: Thank you Stanford. Good morning everybody and welcome to this earnings call of LIC Housing Finance. We have with us Mr. Vinay Sah, MD & CEO and Mr. Sudipto Sil, Deputy CFO to discuss the quarterly results. I would request Mr. Sah to take us through the key highlights of the quarter post which we will open the floor for Q&A. Over to you Sir!

Vinay Sah: Good morning and welcome to the post earnings concall of LIC Housing Finance. As you would be knowing LIC HFL declared its Q2 FY2019 results yesterday. The key highlights of the results are as follows, revenue from operations Rs.4198 Crores as against Rs.3751 Crores for the corresponding quarter of the previous year, a growth of 12%. Outstanding loan portfolio at Rs.175953 Crores against Rs.151417 Crores as on September 30, 2017 reflecting a growth of 16.2%. Individual loan portfolio at Rs.165102 Crores as against Rs.145486 Crores up by Rs.13.52 Crores. Disbursements at Rs.14272 Crores as against Rs.10975 Crores for the same period in the previous year a growth of 30%. Net interest income at Rs.1012 Crores as against Rs.963 Crores up 5%. Net interest margins at 2.35% as against 2.58 for the same period last year and 2.34% for Q1 FY2019. Profit after tax for the quarter stood at Rs.573.16 Crores as against Rs.513.88 Crores, a growth of 12%. All figures have been stated in accordance with the Indian Accounting Standards and previous year figures have also been recast for comparative purposes.

Pursuant to the introduction of Indian accounting standards the asset classification is now classified as stage 1, stage 2 and stage 3, exposure debt default. Companies are required to report ECL that is expected credit loss on their loan assets and provisions thereon. Accordingly the provisions for ECL for the current quarter stand at Rs.218 Crores against Rs.225 Crores for the same period in the previous year. In terms of the total provisions, the company has retained the book provisions that were already existing on the books as per the earlier provisioning norms. At the beginning of the year while arriving at the ECL provisions for the current year as this has resulted in a much higher provisioning cover as compared to June 2018.

On the business front, we have disbursed Rs.14272 Crores as compared to Rs.10975 Crores, a growth of 30%. Overall we have seen a good growth from some locations in Central, Eastern and some part of northern and south eastern regions. In the previous quarter we had indicated about a strong pipeline of sanction especially in project loan, some of which have translated into disbursement in the quarter under review. On the affordable housing front under PMAY CLSS schemes, the company continues to do quite well. During the Q2 the company recorded a disbursement of more than 7,600 accounts in this segment as against about 3400 accounts for the corresponding period of the previous year. In value terms, the disbursements in this segment was Rs.1518 Crores as against Rs.249 Crores for the previous corresponding quarter last year. As a share of incremental disbursements in the retail segment this works out to 16% in number terms and 13.5% in value terms. In terms of asset quality as mentioned earlier in line with the Ind-AS the company has transitioned to the ECL model based on exposure at default. The loss provisions are in line with the historical loss rates of the company, which is one of the lowest in the industry. As a result, the provisions have reduced on a year-on-year basis to Rs.218 Crores in Q2 FY2019 against Rs.225 Crores in Q2 FY2018. In terms of GNPA as per the earlier NHB norms the asset quality has remained stable with GNPAs at 1.20% as against 1.21 of June 2018. The GNPA in the individual loan segment too remained at 0.81% similar to the June 2018 numbers. The past few weeks witnessed an unprecedented situation in the system arising out of tight liquidity conditions; however, we have raised funds through market instruments like NCDs and CPs and also through bank liens during this period. On the cost of fund side though there has been a sharp increase in the interest rates our weighted average cost of fund remained stable at 8.30% as against 8.29% of the last quarter that is June 2018. During the quarter under review the overall spreads have shown a sequential improvement by about 4 basis points between June and September 2018.

The rate hike cycle has required the company to also review its PLR. During the quarter, the company hiked its PLR by 30 basis points making it a total of 60 basis points PLR hike during the current financial year. With this brief introduction, I would like to invite you for your queries. Thank you.

Moderator: Thank you very much Sir. 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 Digant Hariya from Antique Stock Broking. Please go ahead.

Digant Hariya: Sir, my question is that, our individual home loan growth still remains in single digit, which is around 9% and even the growth in LAP and developer portfolio is again in excess of 30%, 40% and which is why the proportion of home loans continue to decline, so now Sir whatever happened in the last 30 days, a lot of these PSU Banks have been purchasing pools from some of the housing finance company, so do you think that their aggression will slowdown in the market, which we operate and we should be able to better home loan growth in times to come?

Vinay Sah: Just one correction, our LAP and other portfolios currently growing at around 15%, 16% and as you said retail is growing at around 9%, but we have been focusing and re-focusing on larger volumes through individual loan segment also. Regarding the other question that you asked of smaller companies selling these things and the banks – actually I do not see much of such transactions happening, it was a news that this is happening, but from the information that I have not much of such transfers have happened. Going ahead I see that probably the demand side will continue to be strong in the coming times, so yes we have to improve up on our core segment disbursement.

Digant Hariya: Okay and Sir in terms of margin Sir last quarter we said that most of the repricing is over and maybe we might expect a little bit of margin improvement, so I understand that this is not a Q2 even ask for margin improvement or something like that, but just if you can give some idea on where our margins should stabilize or maybe even at what point can we start seeing some bit of uptick also?

Vinay Sah: Digant if I can say that – taking forward what I said in my previous concall we have improved by 1 basis points, so if you take it as improvement, number one. Number two the interest rate hikes on PLR too happened in Q1, the effect of which actually came in Q2 and subsequently we have done one in August and the second one again we did on the October 1, so these two hikes will have effect on Q3 because the date of applicabilities usually once we announce in the middle of the quarter it is from the first date of the next quarter as per our norms, so a total 60 basis points hike that we have done will have full effect in Q3.

Digant Hariya: Okay Sir, all right. Thank you. All the best, I will come back if I have more.

Moderator: Thank you. The next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.

Nalin Shah: Good afternoon Sir. First of all let me congratulate on excellent set of numbers. My question is that in the light of - in the recent stress on NBFC companies, even the housing finance companies do you foresee any excellent opportunity for growing through inorganic growth and acquisition possibilities?

Vinay Sah: Yes Nalin the possibilities are there and provided the deal is good I can share with you that in the past also we have been evaluating some of such deals say in the last six months or eight months, but the valuations have been on the higher side, so we have not gone in for it, so if the valuations are okay we are open to it and in fact we do evaluate time and again.

Nalin Shah: Okay. Thank you very much.

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

Kunal Shah: Yes. Sir firstly on the developer loan portfolio… With respect to the developer disbursements last time also you highlighted that the pipeline is good, but given the current scenario maybe disbursing like Rs.3000 odd Crores, so can you give some color in terms of what is the profile of this developers and what would have been the rejection rate may be earlier if the pipeline was similar may be how was the rejection rate post this entire situation in terms of not accepting the proposals given the weaker sentiments, which are there?

Vinay Sah: Two points to your question. Number one is see processing developer loan it takes a lot of time, it is something which will happen, which will even not happen in a week or 15 days of time, so Q2 this has happened, but everything has not happened in September. Everything has not happened in the last 15 days of September, this is one part of it. Number two, current year we have rejected builder loan proposals to the tune of about Rs.3000 Crores. Last year we have rejected about Rs.3000 Crores of builder loan proposals also and these builders we have our own rating system of builders, we sell them, give loans to builders who do not fall under A category as per rating criteria.

Kunal Shah: In terms of the number of accounts, which would have got disbursed, so if you look at this Rs.3000 Crores, how well distributed it would be and what would be the size of the largest account if you have to look at it?

Vinay Sah: Number of accounts would be slightly in excess of 30, I think it is as a 33, 34 something like that. Amount wise I would – I am not like, I mean highest amount I would not like to share, but it is not I can share with you it is not in four figures and it is not in a very high three figures also.

Kunal Shah: Okay and in terms of this increased coverage, so maybe now carrying almost like 52% odd under this stage 3 as a LGD so how should it may be in Q1, it was definitely not there, we have increased it in Q2, so you said that not plowback the existing provisioning, but why the reason… particularly why it was not done in Q1 and now it is done in Q2 and is it largely to do with the weaker real estate sentiments wherein we have say go and increase this LGD?

Sudipto Sil: No Kunal actually this is Sudipto Sil, see the reason that we had done it is if you recollect in the Q1 we had shared that the ECL model is something that we are still trying to develop and obviously it is a sea change from the existing provisioning norms of the national housing banks which was there, so what has actually happened is that there was some provision, which was already there on the book, instead of writing it back we have just transferred it to the ECL and from the ECL whatever is required that also we have done, so overall it has led to a overall higher provisioning coverage on the entire book to the tune of about 73% and which is by and large the kind of provisioning that we had always been covering for the last several years, so that is by and large the logic, there is nothing specifically related to a particular stage or so.

Kunal Shah: No because when we compare it with the other HFCs under the stage 3 the LGD is much lower, okay, in fact for us it is like even it is a secured product completely and still LGD's are in the range of 50% plus and I do not think any of the housing companies what I have discussed everyone is in the range of say 25, 30 or even below that?

Sudipto Sil: That is just an extra provisioning which has been kept there, there is nothing more to read into it, it is only an extra provisioning cover that we have left there as it is, there is nothing more to be analyzed in that number, it is just an extra buffer which we have kept because there was a plowback from the existing NHB and they had to be somewhere to put at. Because now the NHB provisioning cannot be kept in the books.

Kunal Shah: Yes, so this release was also this quarter an NHB-1?

Sudipto Sil: Yes, it was then…because this is the September half year is when we publish the balance sheet, so it has been done this time.

Kunal Shah: And one last question in terms of the tax rate, so again for the first half the tax rate is quite low compared to last three years, so where do we see it settling, so would it be like the maximal marginal rate towards the end of the fiscal or it will settle sub 30% for the annual may be for FY2019?

Sudipto Sil: No actually there will be I think slight remission, but by and large it will be towards the maximum marginal rate only and the impact is because of the deferred tax treatment under the Ind-AS, which is different from what we were doing earlier that is the only difference.

Kunal Shah: Okay that is the only difference?

Sudipto Sil: That is the only difference.

Kunal Shah: Okay. Thank you.

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

Piran Engineer: Hi Sir. If you could just talk about some of your top builder exposure what would be the corresponding quantum in your Rs.10,000 Crores builder book?

Vinay Sah: Piran, some names I would not like to take at this point of time.

Piran Engineer: Okay, but do we have exposure to any of names like Supertech, Vatika, etc., that have been in the…?

Vinay Sah: No that you can ask.

Piran Engineer: And do you have anything to IL&FS by any chance parent subsidiaries anything?

Vinay Sah: No, IL&FS, Supertech, we have no exposure.

Piran Engineer: Are bulk of builder loan exposure in Mumbai and the western region or is it geographically well spread out?

Vinay Sah: No, it is spread out, but yes you can roughly say may be 40% would be western India including Mumbai.

Piran Engineer: Okay and did we buy out any builder loan this quarter?

Vinay Sah: No, buyout means no, but may be some of the builder loans there would be some takeover amount, but buying out…

Piran Engineer: But that could be how much roughly?

Vinay Sah: That depends on the proposal actually.

Piran Engineer: Okay and if you could just explain this provision thing once again, I did not quite get the math here, so last quarter…?

Sudipto Sil: Piran just let me explain to you, ECL, expected credit loss model pursuant to the Ind-AS was introduced first in the quarter of June 2018, for the first time we have prepared accounts in accordance with that and at point in time we had created the provisions exactly according to the ECL, whatever provisions were lying there if you recollect our concall of post Q1 we had said whatever was created in accordance with the NHB that has not been treated and that we will be treating in the half year, when the balance sheets will be published, so whatever provision was lying as per the earlier NHB provisioning norms. As of April 1 or March 31 that has been retained in the book in exactly the amount. Additionally whatever is required for provisioning under the ECL that has been done. So that is the reason why you have seen that the coverage ratio has increased significantly.

Piran Engineer: Okay, so if I get it in the Q1 we had about Rs.900 Crores of provisions that did not include let us call it contingency provisions Q4?

Sudipto Sil: If you now look at it at the end of March we had about Rs.1300 or Rs.1200 Crores of provisioning on the books.

Piran Engineer: Correct.

Sudipto Sil: But this was only 900, so additional 300 was what was added back to the provisioning this time and along with ti the Rs.200 Crores incremental that we have taken up from the P&L.

Piran Engineer: Okay, understood and then our net worth reconciliation then would only include the DTL impact, there is no floating provision reversals…?

Sudipto Sil: Provisioning was not there. In case the provisioning impact was not taken even in the earlier quarter.

Piran Engineer: No I get that. Some HFCs have reversed the floating provisions and have added it back to net worth…?

Sudipto Sil: We have not reversed. That is precisely what I am saying we have not reversed. We have actually enhance the provisioning cover by keeping it on the books.

Piran Engineer: Okay, understood and Sir lastly your PLR growth is that a new loans or on all loans?

Sudipto Sil: All loans, new, old, everything.

Piran Engineer: Okay, that is it from my side. I will get back in queue if I have anything else. Thank you.

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

Kashyap Jhaveri: Congratulations for great numbers and thank you for the opportunity. One question from the previous participant when you said this old as well as new loans everything is repriceable. I am just looking at slide #11 in your presentation which says 82% is a pure floating rate loan, so the whole 82% is repriceable as and when you change the bill right?

Vinay Sah: Yes.

Kashyap Jhaveri: Second question is on your developer loan portfolio, which is now as a percentage of your loans as a proportion almost now about 6% odd the previous peak that we saw was about 11% and then it gradually came down from FY2010, but during around the same time we saw a spike up in the NPL also because of couple of accounts, now as of date when the rates are rising and whatever calls we attended, a lot of real estate financier everybody is saying that probably they are going to freeze the disbursement at least for next about three odd months until they get some clarity from RBI in terms of liquidity and all, do you believe that this could probably result in some of this builders liquidating their inventories at discounted price, can we take advantage in on the overall pricing of the asset in a broader sense?

Vinay Sah: No, I mean that we cannot say, but I will answer your question from an entirely a different perspective also, whether it is our HFC or any other HFC, no one will go in for or not go in for a project loan knowing it is bad. Number two, money if it is not available then naturally I will not give, so some of the companies are not giving big loans because they do not have money, it is not that because of the borrower is bad or likely to go into NPA and then we have our very strictly rules of SOPs and due diligences taken up we would also not like to enter into a arena, there is even a aorta of small percentage of doubt that the project may go slip into default and most of these as we said before, most of these cases did not come to us in September. I do not think that even 5% or 2% because it takes time, the processing takes quite a lot of time. So they were already there in our pipeline, so that has a…And yes as you said we have after September especially looking to the liquidity position also overall in the market, we are taking adequate precautions and maybe become more stricter in appraising these projects. That is the only change, but we are not saying no to builder loans still.

Kashyap Jhaveri: Right, but looking at for at least in near-term curtailment of the sector as a whole that aversion to this kind of financing, to just to generate liquidity could this developers probably tinker with the pricing, could it be material going forward– because that impacts our LAP portfolio also eventually in terms of the collateral, so that is why I am asking this question?

Sudipto Sil: Yes we have to be, it can be a good opportunity also to get onboard and do more that also is one side of the story, but then as you said yes we are very cautious about it.

Kashyap Jhaveri: Okay and we used to give separately interest income on an individual and developer's loan I am not able to find that in this quarter's presentation, would we be disclosing that number?

Sudipto Sil: Separately we can disclose,

Vinay Sah: Currently I do not have.

Sudipto Sil: It is not published.

Kashyap Jhaveri: Okay. Sure, that is it from my side. Thank you very much Sir.

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

Abhijit Tibrewal: Thanks for taking my questions. So what are the derivative financial instruments on the assets and liability side of the balance sheet?

Sudipto Sil: Sorry.

Abhijit Tibrewal: What are the derivative financial instruments that I see on the asset and liability side of balance sheet?

Sudipto Sil: Yes that is actually those are understanding, some swaps that we had taken about seven, eight years back that is it. We have not entered into any swaps post 2009.

Abhijit Tibrewal: So they all…

Sudipto Sil: They are all running off, yes they are all running off.

Abhijit Tibrewal: In the disbursements of Rs.11324 Crores in the individual segment, can we provide a split between home loans and LAP?

Vinay Sah: Home loans would be in the range of about Rs.9000 odd Crores.

Abhijit Tibrewal: And the rest is?

Vinay Sah: Balance would be LAP.

Abhijit Tibrewal: What was the quantum of incremental borrowings that we did in this quarter?

Vinay Sah: Net will be around approximately Rs.22000 Crores.

Abhijit Tibrewal: That is all. Thank you very much.

Moderator: Thank you. The next question is from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

Abhishek Saraf: Sir just on liquidity front so just wanted to understand from our cost of funding, so obviously for quarter-on-quarter it is more or less flat, but in this quarter how has been our experience how have the cost of funding gone up and it seems that we also kind of deferred one of the NCD issue, which we had recently launched and did not take it up so just a view on how do you see cost of funding panning out for yourself right now and given that around 80% to 84% of our asset side will be repriced to the new rate so what will be similarly on the liability side how much of it is repriceable in the near-term, what I am trying to understand is the overall impact on the NIM for the second half of FY2019?

Vinay Sah: Approximately around Rs.12000 Crores of liabilities will be running off in the balance part of this financial year including from October and that is at present carrying an average cost of around 8.6% to 8.7%, but though there will be some tranches, which will be contracted well in excess of 9% as well, so it is a mixed bag. Secondly in terms of cost of funds, the overall cost of funds has remained by and large at levels, which was there till as of March 31, 2018, which is around 8.29% or 8.30% and for Q2 incremental cost of fund has been around 8.17%, right now if you see keeping the borrowing basket mix same, the same would have gone up by around 15 to 20 basis points and that is roughly the amount of repricing that we have also done on the assets thought the asset repricing has happened on the entire book whereas the increment in cost will be impacting only the incremental borrowing.

Abhishek Saraf: So that definitely will be a margin positive that way and Sir in terms of growth do you think will be able to maintain the H1 FY2019 numbers given that there will definitely be some kind of, if there will be some liquidity squeeze going forward will we maintain the current level of growth and within that what kind of loan book are we looking for project loans even it has gone up to around 6% odd though I understand this tends to be chunky, but do we expect this ratio of project loans to be maintained as well going forward?

Sudipto Sil: Overall for the year FY2019 we are still looking at a full growth of about 17%, 18%, which we had budgeted at the start of the year. Composition of the book may be goes up to 6.5%. I do not see a very exponential growth for projects looking at the current scenario.

Abhishek Saraf: Thanks a lot.

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

Umang Shah: I just have a couple of questions, could you please help me what is our Tier-I ratio as of now?

Vinay Sah: Tier-I ratio as of March 31, 2018 is 13.06%, Tier-II is 2.43%, total is 15.49%.

Umang Shah: But I mean during the YTD period we have grown fairly faster in nonindividual loans like developer and LAP where the risk weightages would be high, so any colour or idea that you can give in terms of do we have any capital raising plans or current capital position kind of allows us to grow at these rates at least for how long can we sustain these growth rates?

Vinay Sah: Yes foreseeable future we can certainly we do not need capital it is adequately capitalized and there has been an increase in the builder loan as we have very rightly identified, which consumes capital faster. The profit growth for the first half also is in excess of 20% so that kind of offset and for the detail apiece the risk weights are in the range of around 35% to 50%.

Umang Shah: Alright got that. Second I just wanted a small clarification on data points so on slide #13 of the presentation, under Ind-AS battery conciliation what would be the components in other adjustments I mean it is reasonably large number at Rs.152 Crores?

Vinay Sah: The other adjustment basically is of commission income and other things.

Umang Shah: Basically it is the amortization of payouts that we can do under Ind-AS now?

Vinay Sah: Right.

Umang Shah: Alright and just last question that I have is just again to confirm one data point on our first slide of the presentation, we have mentioned NPAs at 1.2 and on the other slide it is 1.27, it is basically the difference between gross NPA and gross stage 3 right?

Vinay Sah: Yes actually it is slightly different this 1.2 is as per the NHB probably I should have included that lying there, as per the erstwhile NHB provisioning norms whereas this one is basically under the EPL norms.

Umang Shah: Fair point and Sir just lastly on the incremental home loans what would be the differential in terms of rates between us and banks so let us say post October, what would be home loan rates for us and banks or what would be the differential like?

Vinay Sah: For some of the banks we would be lower than then and I think state bank is 5 basis points lower than us, but otherwise the other HFCs also and we are very competitive and it is not that we are giving at very low rates or very high rates.

Umang Shah: But Sir going forward you think this differential will rise because obviously our marginal cost of borrowing has gone up so we will have to pass that on into our landing rates, so that differential might expand right going forward?

Vinay Sah: We take a call on everything the cost of going up what the competitors are doing, they can do consideration everything.

Umang Shah: Taking that into consideration 2.3% kind of margin I am not looking at immediate quarters, but I am saying that one quarter down the line when the rates kind of settle down you think this 2.2% to 2.3% kind of band is sustainable?

Vinay Sah: Yes certainly 2.35% is what we have delivered back to back on the two quarters and if you see there has been some kind of improvement in the spreads though the numbers are very, very small single digit, but there has been sequential improvement in the spreads between March and June as well as from June to September. Secondly the cumulative impact of the PLR hikes that we have taken till now that is 60 basis points in the first six months that will also contribute towards the margin because it is spread across 80% plus of our assets, which will be close to Rs.1.5 lakh Crores of assets.

Umang Shah: Right perfect. That helps. Alright. Thank you and wish you all the best.

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

Harshit Toshniwal: Couple of questions, one on the developer book currently the growth, which we have seen is it more back ended that may be in the last two weeks of the quarter we have done majority of the developer loans or that is well spread across the quarter?

Vinay Sah: It is not three months divided by three sort of a thing approximately if I can say nearly 40% of the total this roughly Rs.3000 Crores or Rs.2900 Crores happened in September and certainly not during the last few disbursements did happen in the last date and as we said before also probably processing and sanctioned disbursement it is a long down process, it cannot happen overnight.

Harshit Toshniwal: We can expect that this trajectory to continue because if it is more general and obviously this would be benefited in the going quarters when others are not that aggressive in developer loan segment?

Vinay Sah: Yes, I said before also we are not closing down this portfolio, but then yes because of the circumstances our due diligence has become more stricter. You said about the high growth rate, the growth rate also looks high because of base is very small.

Harshit Toshniwal: Right but even in previous quarters base was not that high so the growth in this particular quarter is exceptionally very high and another point is are previous experiences in developer loan book has not been the best in case and even the gross NPA asset quality improvement we have seen as more base effect in this quarter so how are you ensuring the asset quality so that is why we want the nature of the developers to whom you are lending if you can throw some colour on that part?

Vinay Sah: As I said names I would not like to share.

Harshit Toshniwal: Not name, the quality of developers.

Vinay Sah: I said we have SOP, we have our own rating system of developers wherein we rate them as A, A+, A++, B, also some developers for B and C, the amount that I can share with you is that B and C probably at times we are tempted to give at a higher rate and not say no, but that is what we have stopped strictly after September. We are not giving to any builder who is below A category.

Harshit Toshniwal: What would be the incremental yields on all if you can say for LAP developer and core home loan as on October, so as on the current date so post all the liquidity squeezing more about in the recent times if I look at the incremental yields how would that been three segments?

Vinay Sah: On projects you want or LAP?

Harshit Toshniwal: On all the three broad range.

Vinay Sah: Broad range would be project and LAP taken together would be in excess of 12%, 12.5%.

Harshit Toshniwal: If you can separate that?

Vinay Sah: Project would be closer to 12.6 or so. LAP other things would be in the range of 11% to 11.2%.

Harshit Toshniwal: Core home loan?

Vinay Sah: Core would be 9.1% or so?

Harshit Toshniwal: Incremental cost it was 8.3% for the quarter and you said that it would be another 15 basis points?

Vinay Sah: 8.1%.

Harshit Toshniwal: You said that 10 to 15 basis points is the increase in the cost of funds because of the liquidity squeeze, you guided towards the 15 to 20 basis points higher cost of funds?

Vinay Sah: Yes.

Harshit Toshniwal: Safe to assume that the incremental would be around 8.3%?

Vinay Sah: Yes roughly around 8.3%.

Harshit Toshniwal: Thanks a lot. That was helpful.

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

Nischint Chawathe: Sir if you could just kind of explain as to how the PLR rate hike is passed on to customers, what is the time lag over there because I guess you had a hike sometime in the first quarter, so we would have expected that there would have been some benefit of that in the second quarter?

Vinay Sah: In Q1 we did rate hikes twice, one for 10 basis points, the other was for 20 basis points. Now as per our norms from there is a date of review of rate hike for the back book so that happens to be the dates are July 1, 2018, October 1, 2018, January 1, 2019 so next dated gets applicable so whatever we did in rate hike during Q1 the benefit will start from July 1, 2018 irrespective of the date in the quarter.

Nischint Chawathe: It should have ideally kind of.

Vinay Sah: Yes these two rates hike were applicable on the back book from July 1, 2018 so Q2 that effect has come. Q2 we did one more and one we did starting exactly on October 1, 2018 so these two will help in Q3.

Nischint Chawathe: If I look at your calculated yield it does not seem to have reflected this hike, if I look at the average lending rates it has gone up by like 2-3 basis points?

Vinay Sah: But if you look at it depends upon the timing of the hikes.

Nischint Chawathe: You said that everything if we did 10 plus 15 everything got reflected from July 1, 2018 so ideally this should have got reflected in this quarter itself?

Vinay Sah: Yes it has actually the yields have gone up, the fact that the yields have gone up.

Nischint Chawathe: Based on your estimate what would be the yield hike in the first and second quarter?

Vinay Sah: Separately I do not have the numbers, but just immediately the incremental yield that we are having right now for the retail piece including the core as well as in the non-core that is the home loan and non-home loan piece will be around close to 9.4%. For the builder loans of course that is a different product portfolio, but that is around 12.5% to 13%.

Nischint Chawathe: 9.4% is the incremental number?

Vinay Sah: Yes incremental number.

Nischint Chawathe: After the hike?

Vinay Sah: Yes after the hike.

Nischint Chawathe: Just now moving onto the ALM side if you could give some colour as to how you are placed over the next six months and for the next financial year in terms of the ALM gaps?

Vinay Sah: The ALM by and large is driven by the NHB norms, which gives very strict limits on every bucket like the immediate short-term bucket up to one year and thereafter the buckets for more than one year and thereabout as determined by the board and which is reviewed monthly by the national housing bank, so it is within all those limits, but just to give much more specific about say the bond redemption in the next six months or so as I mentioned sometime back Rs.15000 Crores or so.

Nischint Chawathe: Sir you mentioned Rs.12 or 15?

Vinay Sah: Between Rs.12000 Crores right, Rs.12000 Crores will be the bond redemption then some other repayments like NHB, refinance, etc., may be another couple of Rs.1000 Crores like it will come to around say Rs.15000 Crores then whatever term loans that we have taken that repayment happens plus also the term loan further draw downs happen depending upon our requirement and the fresh lines that we have received already and whatever CPs that we have on book that is about 9% of the total book, which is roughly around say Rs.14000 Crores as of September 30, 2018 we expect that to come down substantially in the next six months to say about 5% to 6% of the total liabilities, which was the figure, which was there as on June 30, 2018.

Nischint Chawathe: Sure and just on the incremental cost of funds I guess you mentioned that on second quarter it was around 8.17%, which would go up by 15-20 basis points assuming that the basket of borrowing remains similar, if you want to reduce your CPs and then possibly go for a little slightly longer tenure borrowings then how this number kind of change?

Vinay Sah: Actually if this also takes into consideration, the bank lines and drawn lines that we have where the rates are still in the range of between 8 to 8.3 of course the NCD is depending upon the tenure and assuming that the rates stabilize around that level, we are expecting that to come down a little bit because if you look at the trend of the GSEC tenure, GSEC it has come down well below 8%, now it is in the range of 7.8% to 7.85% and assuming that market stabilize the corresponding corporate AAA bond should be placed at in the range of around 8.70, right now it is about 30 basis points higher than those levels around 9, 9.1, so 40 basis points higher, but generally it should be trading in the range of around 8.70, so if you look at these two pieces of borrowing and commercial paper whatever 5%, 7% on the book that as of today rate it is available at 8% and assuming that rates remain stable, it should come below 8% by a few basis points so this is keeping in mind these three baskets of borrowing that we have.

Nischint Chawathe: Thank you very much.

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

Sunil Tirumalai: My first question is just to check on the incremental yield that was mentioned on home loan portfolio how about 9.1%, I remember from my notes on the previous call gave the same number as 9.2%, but just wanted to cross check because it seems like a drop, what was it for the last quarter?

Vinay Sah: Q1 was in the range of around 8.8%to 8.9%.

Sunil Tirumalai: Okay, got it. Just coming back to the funding mix question from earlier, so your portfolio of commercial paper has kind of more than tripled in stock over the last - since the end of previous financial year. Are you seeing this as a temporary thing or this is likely to stay at such a high percentage of 9% to 10% of your overall borrowing?

Sudipto Sil: If you look at it I think June it was around 7% if I am not mistaken and at the end of March was around between 4% and 5%, 4% or so, so it has not tripled, right now it is around 9% obviously it is still one of the lowest and we do not have any aspirations of that crossing 10%. As I indicated it should be largely in the range of what it was in the June quarter, which is around 6% to 7%.

Sunil Tirumalai: Finally on the builder loan book just in terms of sheer size historically this is the largest book that you run in terms of we have crossed Rs.10000 Crores of portfolio size, your quarterly disbursement is also quite hike and what used to do historically. There was only one quarter in March when you had more than Rs.2000 Crores of disbursement. From an organization capability perspective, how are you placed, have you expanded your team, your underwriting capabilities, presence in various places where your borrowers are present, the projects are present and do you do only project specific project level loans or do you also do some balance sheet loans from the builder, it will be very helpful to get some colour?

Sudipto Sil: Sunil, one disclaimer is that probably the thing that you said about Rs.3000 Crores doing in a quarter, I do not see that happening in all quarters going ahead also. Number two yes, we have had last year also if you remember I think after Q2 we had a relook into our SOP for project loans many of the parameters were discussed revised as regards things you are saying yes we have fortified our teams at the regional headquarters also and I do not think we have done much of this balance sheet funding, it is mainly on projects.

Sunil Tirumalai: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Thanks for the opportunity. I had one data question. Can I get the absolute number of Tier 1 capital and risk weighted asset as of March end?

Sudipto Sil: Right now I am not having it. I will separately give it to you. The total capital adequacy I think you have already got.

Subramanian Iyer: Sure and also just labouring a bit more on the incremental cost of funds, so even if I were to take a best case 8.7% for NCDs and assuming it at about 70% of our incremental borrowings?

Sudipto Sil: Yes, that is going forward. Right now, the levels are much higher than 8.7, I clarified on the call.

Subramanian Iyer: Sure, exactly that was my point that even if I take that to be about 70% and I take it as 8.7% and take CPs to be about 10% of our incremental borrowings and the rest at about 8.5%. I really struggle to get to an incremental cost of funds below 8.5% I mean that is the best case, so just I wanted your thoughts on that, how do you get to about 8.2%, 8.25%?

Sudipto Sil: That is based upon two things. One thing is that at present there are a lot of bank lines that we are using. So that is actually what is helping us to pull down the cost may be 20 to 30 basis points improvement, 15 to 20 basis point increase on 8.17 number is what we had shared, 8.17 is the incremental cost of borrowings for the Q2, so 15 to 20-basis points on top of that.

Subramanian Iyer: Thanks.

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

Pranay Rajan: Sir I just want to get a few data points from your side. If you could share the net NPA numbers both in value as well as percentage terms?

Sudipto Sil: The gross NPA, there is nothing called net NPA now because as per the NHB norms now it is ECL so which is there on the last slide on the presentation, but as far as the NHB norms are concerned the GNPA is Rs.15100 Crores as on September 30, which is 1.2%.

Pranay Rajan: Can you share provisions for the quarter Sir?

Sudipto Sil: Total provisions for the quarter is Rs.218 Crores, incremental provisions for the quarter is Rs.218 Crores.

Pranay Rajan: No Sir I mean provisions and gross NPA.

Sudipto Sil: That is precisely what I am telling you, as per the ECL there is no provisioning on the gross NPA as per the NHB, there are two separate things. The gross NPA is different and the provisions have been made as per the ECL that is already there.

Pranay Rajan: Can you just share the incremental yield on the total portfolio for the quarter-on-quarter?

Sudipto Sil: The incremental yield is 10.24.

Pranay Rajan: Thank you so much Sir.

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

Adarsh P: Thanks Sudipto Sir. Question again on the incremental yields and costs, so if you can just walk us through in the next six months as CP matures broadly the mix of funding that you would pursue and the cost as you face today in those instruments if you can just let us know which will be bank funding and some bonds?

Sudipto Sil: Bank funding right now, the MCLR are increasing by about 5, 10-basis points, so that is what we are seeing the trend in the last two months, generally the MCLRs have been increasing by 10 to 15-basis points, but for term loan reset is after one year, so whatever term loan you are drawing today the next revision on the rates come after a period of 12 months, so for the period of 12 months, the MCLR remains fixed. That is as far as the reprising of the bank funding is concerned. As far as the reprising on the NCDs are concerned, I just discussed in the previous question. Right now, the levels are around ballpark 9.1 to 9.2, but after may be six months period of horizon that you have taken. We expect that the levels should come down once the rates stabilize and in the region of GSEC plus about 80 to 90-basis point which has been standard AAA corporate spread with a 10-year paper that is in the standard spread that we have seen over the last several years. As far as commercial papers are concerned, we have seen the commercial paper rate on a three-month paper remaining by and large stable in the range of around 7.9% to 8.1%.

Adarsh P: Sudipto, I was more asking in terms of not just the reprising part of it but more incrementally right, so you will have a net growth in balance sheet, which will entire net growth in borrowing, so just wanted to understand your yields and mortgages would be annualized line?

Sudipto Sil: Yields as we have mentioned that there has been an increased on the PLR, so pursuant to that yields on all the categories of lending have increased in the past six months by roughly about 60-basis points and currently we have shared with you the incremental yields also on various product categories which in the noncore segment will be around 11% plus in the developer loans will be 12.5% to 13% and in the retail segment will be around 9.1% that is the incremental yields.

Adarsh P: Is it safe to say that since all the reprising on assets is coming bunched up now and liabilities will reprise as we go, may be one or two quarters we can protect margins where we are, but as we get into 20, the incremental spreads, which are under pressure at least for the core book will start reflecting is that fair statement to make?

Sudipto Sil: Actually if you see in the last six months and even as far as this current quarter is concerned, the weighted average cost of fund because of the construct of liability has remained more or less stable in the range of 9% to 9.3%. As we go ahead, we will see the asset reprising also happening on a larger pool of assets whereas the liabilities as you have correctly analyzed will be on piecemeal basis as and when we keep on borrowing incrementally. Now when the entire portion of the liabilities come up to a particular level, there is a possibility that we might actually see further repricing on the asset size, because if we assume that the interest rate remain at these levels then there could be a possibility of further rate hikes on the asset side as well.

Adarsh P: You are competing with banks, so you may actually not see their cost of fund go up with a lag their term deposits will reprice in three, six months and then probably that remain lower spread for us may be in six months' time, so just wanted to understand because it looks like you will reprise everything on the assets in the next six months, but then there will be catch upon liabilities?

Sudipto Sil: As of now if you look at it the quantum of liabilities that we are borrowing incrementally as a percentage of the total liabilities till such time we have exhausted and we have completely come up to the level of full recycling of the entire liability book till such time there will be some advantage.

Adarsh P: I will take this offline. Thanks.

Moderator: Thank you. Ladies and gentlemen due to time constraints we take one last question from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: First question, has there been any write off during the quarter?

Sudipto Sil: There has been no write off.

Alpesh Mehta: What would be the movement of gross stage 3 exposures in terms of addition and the reduction, recoveries etc?

Sudipto Sil: Between the two quarters you want to say?

Alpesh Mehta: Yes between the two quarters, Q1 and Q2.

Sudipto Sil: As on Q1, the stage 3 was 1.21% of Rs.150,000 Crores.

Alpesh Mehta: Absolute number was Rs.652 Crores and this quarter?

Sudipto Sil: No that is the provision.

Alpesh Mehta: Yes, but in terms of the exposure?

Sudipto Sil: You wanted the exposure of EAD?

Alpesh Mehta: Yes.

Sudipto Sil: EAD was 1.21%.

Alpesh Mehta: So this is the final number, but in terms of the addition and reductions during the quarter, has there been anything added in the portfolio during the quarters?

Sudipto Sil: Number of additions, will be around Rs.300 Crores odd and movement out will be around Rs.200 to Rs.205 and then some exposures also during the period.

Alpesh Mehta: And this addition is largely on the individual portfolio or is there any builder loan?

Sudipto Sil: It is largely.

Alpesh Mehta: Secondly, in the LAP portfolio there is also mentioned of LRD portfolio, so what would be the proportion of LRD?

Sudipto Sil: LRD will be around Rs.4000 Crores to Rs.5000 Crores.

Alpesh Mehta: That is a part of that 16% right?

Vinay Sah: Yes.

Alpesh Mehta: It is not part of the developer portfolio.

Sudipto Sil: No, that is part of the 16%. We have mentioned as LAP, LRD and others.

Alpesh Mehta: And what would be the average ticket size on that?

Sudipto Sil: Average ticket size will be around Rs.41 Crores or Rs.50 Crores.

Alpesh Mehta: Another question is on your networth reconciliation if you can just run us through what was it last year and this year and what has been the additions etc under Ind-AS.

Sudipto Sil: Networth reconciliation it is currently Rs.15200 Crores. We closed the financial year at around little more than Rs.13000 Crores so that 1700 whatever was the incremental above 1200 Crores was because of the deferred tax impact and others will be sundry items, mostly it is deferred tax, no treatment.

Alpesh Mehta: There would have been different payout as well right in the first half?

Sudipto Sil: There would have been dividend earlier.

Alpesh Mehta: So the rest is largely because of the EIR impact?

Sudipto Sil: That is EIR impact.

Alpesh Mehta: Thank you.

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

Vinay Sah: I thank you all the friends for their queries. Going ahead two, three things that I would like to again reemphasize, reiterate is for the balance period, we want to grow very strongly on the home loan disbursement side. Project we would be very selective and do it on a case-to-case basis. We are also looking into raising of funds through other means also though nothing has been finalized as yet like ECBs and all, though nothing has been finalized as yet, so that we are able to gain some basis points as far as the borrowing rates are concerned. All the best to all of you. Thank you very much,

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