"LIC Housing Finance Limited Q2 FY2021 Earnings Conference Call"

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ANALYST: **MR. PRAVEEN AGARWAL - AXIS CAPITAL LIMITED**

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

Moderator: Ladies and gentlemen, good day, and welcome to the LIC Housing Finance Limited Q2 FY2021 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. This call is schedule for one hour and will end by 12:30. 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, Fezzan. Welcome, everyone, to this earnings call. We have with us Mr. Siddhartha Mohanty, MD and CEO; and Mr. Sudipto Sil, CFO of LIC Housing. I would request Mr. Mohanty to share his initial thoughts, post which we will open the floor for Q&A. Over to you, Mr. Mohanty.

Siddhartha Mohanty: Thank you, Praveen. Good morning, friends, and welcome to the post results conference call of LIC Housing Finance Limited. As you are aware, LICHFL declared its Q2 FY2021 results yesterday. Before beginning, I wish you and your near and dear ones good health and safety. On the operations for the quarter, I would like to share with you the background and the perspective, most of which I am sure you are well acquainted with.

The evolving situation around the COVID-19 pandemic, which had forced the country into a complete lockdown for most of the part of the past quarter, has eased somewhat from June 2020 onwards. There has been gradual unlocking of the economy, pursuant to which we have witnessed a significant improvement in business activities across the country. Though the economic recovery has been faster and sharper than what was previously estimated, it is to be noted that the COVID situation is far from over, as is being absorbed in several parts of the world, where there is a second wave, and a full economic recovery, both global and domestic, may take some more quarters. In such times, we will continue to remain at the highest level of alertness and adaptability to the fast-changing scenario.

Despite the above, during the second quarter, disbursement has shown a gradual increase month-by-month with reemergence of demand across the country. The pickup in business activities have till now been much better compared to what was initially feared, and though a complete recovery will take time, we can say with some degree of confidence that we have come back to pre-COVID levels in terms of fresh disbursements. Due to the given circumstances, the performances of the quarter may not be strictly comparable with that of the previous financial year on a like-to-like basis.

With this as backdrop, I would now present the key highlights of Q2 performance, which are as follows. Total revenue from operations 4969 Crore as against 4973 Crore for the corresponding quarter of the previous year. Outstanding loan portfolio stands at 213349 Crore against 203037 Crore as of September 30, 2019, showing a growth of 5%, and out of this, individual loan portfolio stands at 197986 Crore against 189351 Crore, showing a growth of 5%. Total disbursement for the quarter were 12443 Crore against 12173 Crore for Q2 of FY2020, and out of this, individual home loans stand at 10373 Crore against 10137 Crore for Q2 FY2020. Net interest income for Q2 was at 1238 Crore against 1252 Crore for Q2 FY2020. Q1 FY2020 net interest income was 1221 Crore.

Net interest margin for the quarter stands at 2.34% as against 2.32% for Q1. Profit before tax for the quarter stood at 1009.26 Crore against 856.06 Crore, showing a growth of 18%. Profit after tax for the quarter stood at 790.90 Crore as against 772.20 Crore for the same period in the previous year, reflecting a growth of 3%. As mentioned in the earlier part of the discussion with an increasing trend during the second quarter, disbursements are back to pre-COVID level. September 2020 witnessed a 22% growth in individual home loan disbursement. Further, October 2020 recorded a growth of 38% over October 2019, making the beginning of a good festive season.

We are witnessing improvement in growth almost across the country. Incremental disbursements have come predominantly from individual home loan category. Disbursements in builder segments were largely to existing customers. During Q2, we have launched a first of its kind product for pensioner, that is Griha Varishtha, and it has already clocked 1000 Crore new disbursement.

Our mobile app, HOMY, launched just a month before the lockdown also helped in generating new business, accounting for nearly 2000 Crore sanctions during the very crucial period where physical mobility was restricted due to lockdown. Business under PMAY CLSS category continued to remain strong with nearly 29% of retail disbursement coming in this category. In terms of asset quality, stage 3 exposure at default stood at 2.79% as against 2.83% as on 30 June 2020. Total provisions as on 30 September 2020 stood at 2771.92 Crore, reflecting a provision cover of 47%. This being the area of highest sensitivity, we have been very closely focusing on the recovery and the collection aspects, especially after the end of the moratorium page, which has witnessed a consistent improvement with September recurring 96%. In previous interactions with you, I had mentioned about our efforts creating special task force to tackle the unprecedented situation arising out of the lockdown and moratorium.

I would like to share with you that the continuous engagement with the customers in this manner has helped us tied over that page. On funding side, we have witnessed a reduction in overall cost of funds by 26 basis points during the current quarter and 46 basis points during the half year. Incremental cost of funds has come down significantly, nearly 100 basis points in Q2 itself. Net interest margins for the quarter stood at 2.34% against 2.32% over Q1, and the spreads have increased from 1.98% to 2.21% year-on-year. The funding environment and the liquidity conditions remain quite favorable for the company. High-cost liabilities of almost 16500 Crore is scheduled to redeem in the second half of the year, which will further help ease the cost of funds.

We have also launched several initiatives and products recently. As already mentioned, 1 product for pensioner, Griha Varishtha, we have launched, and there is also competitive pricing across all product offerings. With an aim to improve efficiencies at every level of organization, the company has launched Project RED, R-E-D, Re-imagining Excellence through Digital transformation. For this project, Boston Consulting Group, BCG, has been engaged as our consultant and work has already started. With this brief introduction, I would like to invite you for your queries. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: In terms of collection efficiency, so we have highlighted that for the non-morat customer, it is 96%. So overall, just if you can give some sense as to how it has been for the customers who are there under moratorium prior to August? And also, between the retail and the non-retail, how are we seeing the traction on the non-retail side post the moratorium in terms of the collection?

Siddhartha Mohanty: You see once September, we have given 96%, that is the figure of September, and that includes both moratorium and non-moratorium because moratorium ends on 31st August. So, this 96% constitutes total customers, and they have started paying 96%, and if you see out of moratorium, specifically around 3% to 3.5%, they are now inquiring for restructuring. So that constitutes total 100%.

Kunal Shah: No, no, sorry, I did not get this part. 3% to 3.5% of the moratorium...

Siddhartha Mohanty: Yes. September, if you take total customers, 96% of them have started paying, and 3% to 3.5% of our customer, portfolio-wise, they have approached for restructuring. So that constitutes total 100%. If you bifurcate, so already 96%, more than 96%, and 3% to 3.5%, they have just inquired. We are now examining whether they will be eligible. All those parameters are there, but they have inquired. So that gives a total picture of 100%.

Kunal Shah: Okay, and this will be retail plus non-retail?

Siddhartha Mohanty: Yes, retail as well as project, and retail project ratio is just 2:1. 1 is retail, 2 is project, volume-wise.

Kunal Shah: Okay. In terms of the restructuring you are saying.

Siddhartha Mohanty: Yes, yes. Restructuring inquiries.

Kunal Shah: Okay. This would be more in terms of how would it be in terms of the value, if we have to look at it...

Siddhartha Mohanty: Value, that 3% to 3.5% is 6500 Crore to 7000 Crore of our book size.

Kunal Shah: Okay, okay. So that, and if you are saying it will be split 2:1 between the project case and the retail case.

Siddhartha Mohanty: Yes, yes. That amount will be restructured, yes.

Kunal Shah: Okay, yes. So, and these are the inquiries and it can go up going forward and...

Siddhartha Mohanty: It will go down. It will actually go down. We are examining, and we will start activity. Before December, all these things will be over.

Kunal Shah: Okay, and maybe if, say, 2% of the portfolio is towards the corporate, so how about the balance one when you look at it in terms of the total proportion of the portfolio, 2% is who are sticking for that. So, should we assume that the balance one are coming and take the normal payment?

Siddhartha Mohanty: No, what I told, total out of moratorium amount, it is 1:2 ratio because the retail is 33%, 66% is projected, volume-wise, yes. So, if I tell you a specific figure, it is retail is some 2400 something and projected is nearly 4700 something 700.

Kunal Shah: So out of this 15000 Crores, 4700 is Crore is something, which you have sought the restructuring, okay?

Siddhartha Mohanty: In project.

Kunal Shah: Yes, in project. So, balance, should we assume that we are getting the regular payments?

Siddhartha Mohanty: Yes, they are paying regularly.

Kunal Shah: Okay. So, they are paying regularly?

Siddhartha Mohanty: Yes.

Kunal Shah: And if I were to look at it in terms of the CRISIL including the CRISIL overviews, how our GNPLs would have behaved or the stage 3 accounts would have behaved from 2.79%, how big would that be?

Sudipto Sil: It would have slightly more room, marginal because we have taken into account. Total, we have provided 2.79% is there. What you are telling if we take in, another 300 Crore to 350 Crore, 400 Crore may be additional will be there.

Kunal Shah: 300 Crore to 400 Crores additional, which are there under the standstill currently?

Sudipto Sil: Yes.

Kunal Shah: Okay. Okay, and just in terms of growth, so I think definitely, it is been much better. We are amongst a few to at least get back to our year-on-year growth level. So, do we see this momentum more or less continuing? And finally, what would be our outlook on the growth side, particularly on retail?

Siddhartha Mohanty: Actually, if you see, we are very buoyant because September quarter Q2, we have shown a growth of 2% over previous year despite pandemic, despite all adverse situation, and month-on-month, only for September 2020 and September 2019, growth is 22%, and if I tell you, October, let me share October. On October, it is 38% growth we are showing, and if I tell November till date, we are showing very good growth. So, my sense is this third quarter and fourth quarter, there will be huge growth and already, third quarter, we have reached the pre-COVID level. Already, we have shown 2% growth in Q2. So Q3 will have overall growth will be there. Overall, will be positive and year-on-year my sense is at least double digit, 9%, 10% growth will be achieving by Q3.

Kunal Shah: Okay. Sure, and in terms of the repayment, if we calculate, this quarter was higher, so would it be more in terms of some overdue payments, which you would have got collected or there are balance transfer cases as well, which would have happened? So, if we just look at it, it is almost 4.5% run rate for this quarter. So how should we look at it?

Siddhartha Mohanty: Sudip?

Sudipto Sil: See, actually, you are asking about the prepayments, right?

Kunal Shah: Yes, yes, prepayments.

Sudipto Sil: The prepayments reduced on an annualized basis. The rate is almost similar, I would say, slightly lower. Of course, the first quarter should not have been taken as a benchmark because hardly the offices were open and payment, etc., did not happen. So, comparing it with Q1 is probably not correct for this purpose. The offices themselves were closed at that time.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: My first question is on home top-up loan. So, of your total individual disbursement, how much is the home decor or home top-up loan? And what would be your rate to the client customer, both for individual home loans, your best rate, individual home loans and top-up loans?

Siddhartha Mohanty: No, top-up will be around 3% to 4%, top-up loan.

Mahrukh Adajania: Of disbursement or of...

Siddhartha Mohanty: Disbursement.

Mahrukh Adajania: Okay, and what will be your rate for the best customer?

Siddhartha Mohanty: Best 6.9% up to 15 Crores CIBIL linked base, 700-plus CIBIL, 6.9%, up to 15 Crore individual retail housing loan that we are offering most competitive today.

Mahrukh Adajania: Okay, and sir, what is the capital adequacy? And then any plans to raise capital or what is the timeline for raising capital?

Siddhartha Mohanty: You see, as of now, we are adequately capitalized. It stands at 13.89%. We have our plan. We are working on that, but exact timing will be known later on. There will definitely be some movement in raising capital. That will be there.

Mahrukh Adajania: Sir any timeline like 9 months, 6 months, any timeline?

Siddhartha Mohanty: That we will let you know. We are working on that, because it depends on various factors; market and all those things. So, we are very alert to that.

Mahrukh Adajania: Thank you so much.

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

Roshan Chutkey: Sir, the collection efficiency number, I want to understand it better. Stage 2 has seen a reduction from 3.97 last quarter to 1.32, which means the bulk of these customers have paid at least 1 more EMI more than the usual, right? So, in the numerator what have you taken, in the denominator what have you taken? Can you just explain that number, 96% better, please?

Sudipto Sil: Yes. Roshan, see, actually, what you have said is right. There has been an improvement from stage 2 to stage 1 because we have said that anybody who wants to avail the moratorium must have the account updated as of 29 February. So, whoever had fallen behind had also made a payment, but when the collection figure has been shared, that is only dues for the month is taken. It is not dues for the earlier months.

Roshan Chutkey: So only dues for September month is what you have shown as 96%?

Sudipto Sil: Yes, yes, yes. So even if somebody had paid 2 months earlier, the EMI on that particular month, it is not taken.

Roshan Chutkey: All right, and this pension scheme, the pension housing loan that you have, what is the criteria? How does it work?

Siddhartha Mohanty: Actually, here, this scheme is called Griha Varishtha. Anybody who is having pensionable job or who has retired up to age 65, he should not have completed 66 years, 65, he can take a housing loan and repayment term is up to age 80 or 30 years, whichever is maximum, and 6.9% interest is there up to 15 Crore. Then if he goes for ready-to-move house, 6 EMI, whoever is their staggered manner after 3 years, 6 years and 10 years, 2 EMI each, and if he goes for under construction house, 48 months, principal moratorium is there. He will just pay simple interest on the amount disbursed, and if he is joined by his children, working son or daughter, so loan amount will be amended and term will also be amended, maximum term will be 30 years term. So, this is evoking very good response. This is one segment. Actually, nobody gave attention. Now these people, particularly many senior citizens, by the time they retire, they spend everything for their children's rearing and education; all this, they do not have their own house. So, they are very happy. We have already disbursed 1000 Crore under this scheme, Griha Varishtha.

Roshan Chutkey: Thank you so much sir, that is all from my side.

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

Nishant Shah: Yes. So just 1 data keeping question for me. The total capital adequacy as of September, you mentioned, was 13.89%, right? Would you also give me the Tier 1?

Sudipto Sil: See, actually, Nishant, this figure that we have shared 13.89% is of March. September will be generally after getting approval from the NHB, we put it up. So as far as the Tier 1 is concerned, it should be slightly more than 12%, estimated. I am not considering the current year's profits.

Nishant Shah: Correct. Fair enough, and just 1 more data thing point. Can you give us a split between the individual NPLs and the developer NPLS, both with and without the Supreme Court ruling taken into consideration?

Sudipto Sil: See, the individual loans, including the non-housing loan, the stage 3, whatever you call it, that is 1.7%, which was 1.74% as of June, and the project is 16.52% as of September, stage 3, which was 17.64% as of June.

Nishant Shah: Okay, and what would be the numbers ignoring the Supreme Court ruling?

Sudipto Sil: See, overall, the stage 3 is around 279 Crores. What MD sir mentioned is that will be around 300 Crores to 350 Crores could be additional, putting all these categories together.

Nishant Shah: Okay. So, it will be equally split between both of them. They will not be...

Sudipto Sil: Finalized, yes.

Nishant Shah: Okay, perfect, and the last one, what is the incremental yield on all the loans disbursed during this quarter between the individual and non-individual...

Sudipto Sil: Yes. During this quarter, the incremental yield is around 8.11%, and incremental cost during the quarter is 5.81%.

Nishant Shah: Yes, and within this 8.11%, could you split that between individual and builder?

Sudipto Sil: Individuals will be around 7.3% or thereabouts, 7.3% to 7.4%, and the balance will be attributable to the other categories.

Nishant Shah: That is, it from me. Thank you.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aditya Birla Sun Life Insurance. Please go ahead.

Pranav Gupta: So, 2 questions. Firstly, in terms of the COVID-related provision that we have, about 194 Crores that we have created. If I just look at the moratorium with the last number that we had about 23%, and you said that most of them have started paying and restructured book is, people who have requested restructuring is about 7000 Crores. Just wanting to understand how we are looking at this credit cost going forward for the second half. Do we feel that the amounts we have in stage 3 provisioning is enough? Or are we looking to create more on stage 1 and stage 2 going forward? Your thoughts on that? That is the first question.

Siddhartha Mohanty: Yes. If you see at present, all whatever you have said into account, credit cost at present is just 15 basis points, and in coming days, if we take into account all Supreme Court, without Supreme Court judgment and all those things, it will go up slightly. My sense is it will go up to 20, 21 basis points for the full year.

Pranav Gupta: Okay. So why I am asking this question is because even if you are to make a bare minimum 10% will be the requirement on the restructured book, that itself is 700 Crores, whereas we hold only 200 Crores of COVID-related provisioning, that is where my question is coming from actually.

Siddhartha Mohanty: We have already provided.

Sudipto Sil: This is already there, this is only for COVID, but apart from that also, provision is there. It is not that only this part can be adjusted against that other provisioning that you are seeing. Other provisioning also is there. Many of the loans will have overlapping provisions, number one. Number two is that the provisioning is not going to come in Q3 or Q4 in totality. It will be staggered over a period of time.

Pranav Gupta: Okay. Understood.

Siddhartha Mohanty: Actually, 47% PCR is there. 2771 Crore is there, already we have provided. So that includes this COVID-related provision.

Pranav Gupta: Right, and are we looking to add something to stage 1 and stage 2 because that is almost negligible?

Siddhartha Mohanty: Stage 1, stage 2, from stage 2, there has been movement in stage 1. So, some improvement is there. Only thing is that this third quarter, we are again focusing to recover the, whatever 4% left out, how to recover them and how to restructure. All those things will be, coming days, these will be our focus areas.

Sudipto Sil: And in addition to this part, there are also parallel efforts which are going on in resolving the existing NPLs which might show some more…

Siddhartha Mohanty: Yes, we have. Final cases, it is a huge amount, we are expecting.

Pranav Gupta: What are we expecting over the next couple of quarters in terms of resolution?

Siddhartha Mohanty: Resolution will materialize. These are at final stage, and in this third quarter itself, that will materialize. So, there will be drastic reduction in NPA volume.

Pranav Gupta: Understood. So, what is the amount of these accounts that are in final stages of resolution? If you could highlight that or the ticket cases...

Siddhartha Mohanty: Big ticket sizes. 2 or 3 big ticket size cases.

Pranav Gupta: Okay, okay. All right. Secondly, in terms of the growth, we are seeing a lot of banks also becoming extremely aggressive in this space, and mortgages is the focus area for many of the lenders currently, and with cost of funds for them also at probably lower than us as well, how are we seeing the overall competitive intensity in the market going forward? And what would be implications on growth before us?

Siddhartha Mohanty: Yes, yes. You see real estate market is very huge and it is expanding, and despite COVID, in view of various initiatives by governments, central government, state governments and various HFCs, and initiatives have been taken and incentives also given to customers. Developers are also giving some lucrative schemes. So that has somehow created demand. Demand creation has been there and the people who were deferring their decision to buy a house, they are now immediately taking that decision. That is why we are showing, business growth, disbursement growth in the last couple of months, and this will continue. In coming days, this will continue. Competition is there. Banks are there. Banks have their own segment. We have our own segment. We are spread across the country, all geographies we are present. We have our brand strength; LIC is there. So, in coming days, despite the competition, I foresee there will be good growth in Q3 and Q4 and we will definitely show positive growth by the end of the year.

Pranav Gupta: Right. Sir and my last question in terms of the developer book. So, despite us having almost sort of 15.5% kind of NPA, still a large proportion of the book, you almost had 4700 Crores or that is almost 33% of the book, we are looking to restructure. Can you kind of highlight what sort of reasons they are seeing because on 1 side, kind of you are highlighting that the real estate market is picking up and sales are picking up and growth is there, but on the other side, we have seen such a large proportion in terms of restructuring, so could you help us understand...

Siddhartha Mohanty: Builder book restructuring, which they have sought we mentioned. Not that they are NPA. They want some time, elongation of their loan. So that will also come under restructuring, and they want also to take advantage of all these situations. They are actually stressed also. So, cash flow has been affected. So, for that, if you see, they will be also considered under restructuring. So that is why that 4600 Crore, 4700 Crore, I told that is coming, but not that they are not paying. They have inquired.

Sudipto Sil: Just to add to what sir just mentioned, these are at inquiry stage at this point in time, and just like the monitoring, which we have seen in the earlier part of the year, there were people who actually had applied for the moratorium despite having a capacity to service. This is a facility which is being offered by the Reserve Bank of India. So that is the reason why people have inquired. Now there are some eligibility norms, which will have to be qualified by these accounts, only then probably they can avail of it.

Pranav Gupta: Understood. Sir, just lastly, in terms of the restructuring itself, could you kind of give us a sense on what kind of metrics you are looking at? And what kind of accounts you will reject in terms of restructuring? What is the thought process? Because sir also highlighted that, obviously, you will not be restructuring all of these and they will have to meet criteria in terms of which will be allowed. So, could you just highlight what sort of criteria we are looking at? That will be all from my side.

Siddhartha Mohanty: Eligibility criteria is already defined in that circular, all those things, but what we will look into, we should have a very, very practical approach, pragmatic approach, and the objective will be to help the borrower, at the same time, get back our money. So, both the things we have to keep in mind, particularly developers who are having sale velocity. Because of pandemic, because of cash flow, work has stopped, but they have demand. They are into space where there is a demand affordable segment and others. So, these, we will definitely take a practical view, will help those developers. That will be there, and overall, there are guidelines, we have to follow that, and we have our approval policy. So, we will take care.

Siddhartha Mohanty: Thank you so much.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: Sir, just to clear the confusion in your press release, you have said that the collection efficiency is 96% of the non-moratorium book, and now you are saying it is 96% of the total book?

Siddhartha Mohanty: Yes, because September, you see moratorium is not there. September non-moratorium, so we consider all in September non-moratorium, all out of total September. You can see, I told 3% to 3.5%, they have inquired for restructuring.

Susmit Patodia: Of the total book?

Siddhartha Mohanty: Yes. That is why I spelt the amount also.

Sudipto Sil: Amounts, etc., have been discussed in the beginning part of the call.

Siddhartha Mohanty: So, it is total.

Susmit Patodia: No, sir, I agree. I agree with what you are saying, but the press release is what goes to the exchange...

Siddhartha Mohanty: That is non-moratorium and so we considered that in September.

Sudipto Sil: These are all non-moratorium now. Now there is no moratorium concept. Moratorium is over on 31st of August.

Susmit Patodia: Right. And sir, the second question I had was, most banks are complaining about CIBIL data not being proper and not updated, and while HFCs are lending very aggressively, and your 6.9% is also based on the CIBIL data. So, I was just wondering if you are also seeing that problem, and how are you then lending, and is there any risk because of this.

Siddhartha Mohanty: No, no. We do not experience any such problem. We strictly go by CIBIL score and...

Sudipto Sil: CIBIL score is updated.

Siddhartha Mohanty: Yes, updated CIBIL score.

Sudipto Sil: Updated CIBIL score.

Susmit Patodia: Okay, and sir, lastly, the incremental cost of funds has come down very sharply in quarter-on-quarter. How will the repricing over the next 1 year or 2 years? If you could just give us some idea?

Sudipto Sil: Yes. For the current financial year, it is around 16500 Crores. That is from October to March period, where the average coupon would have been in the range of around 8.4% to 8.5%. Next financial year, it is about 25000 Crores to 26000 Crores. There also, the average coupon is in the range of around 8.1% to 8.2%. That is FY2022.

Susmit Patodia: So, our weighted average cost of fund by the end of next year should come down dramatically?

Sudipto Sil: Yes. If you see in the current financial year also, it has come down by 46 basis points from 1st April to 30th of September on a book of around 190000 Crores, with most of it coming in the second quarter, Q2, that is July to September. In fact, if you look at the current borrowings in the month of October, which is in public domain also, you will find that across the yield curve, the rates at which we had borrowed have been significantly low. For example, at the very short end of the yield curve of less than 1 year, that is 1-year maturity, we have raised money, which is around 3.7%, 3.8%, 3.9% rate of interest also.

Susmit Patodia: Got it, and sir, just last question on the annual report. You have given unsecured advances against intangible security of about 630 Crores to HFCs. What is that really?

Sudipto Sil: That is line of credit where the security is actually negative lien on the receivables.

Susmit Patodia: Okay. So that is classified as intangible security?

Sudipto Sil: That is intangible.

Susmit Patodia: Thank you sir, wishing you a very, very happy Diwali and…

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

Nischint Chawathe: I have just 1 question on your cost of borrowings, and your cost of bank borrowings have gone down to 6.60% for the second quarter, weighted average cost of borrowing. So, I believe maybe incremental funds would be below 6%. So, does these include any NCDs placed with banks as well?

Sudipto Sil: Sorry, can you just repeat the last part of your query?

Nischint Chawathe: Does this include any NCDs placed with banks? Or are these pure bank loans?

Sudipto Sil: No. absolutely not. These are all bank loans, and I can share with you that many of the bank loans we have been able to renegotiate and change the basis, whichever earlier was MCLR linked, we have got it renegotiated and come back to RLLR, repo linked lending rate, and we have raised term loans as low as 5% for 5 years.

Nischint Chawathe: Thank you very much.

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

Sanket Chheda: Congrats on very good set of numbers on growth. Sir, my question is on capital adequacy. So why is that, that we have to report the numbers on a lag basis, wherein the, and get approval of NHB, wherein all the other peers do report on current basis? Secondly, by NHB regulations, we need to be at 14% by this year-end, and yes, we are slightly below that by March and 15% by FY2022. So, in that, is that stopping us from maybe providing more to keep the 14% floating? And so, if we are expecting that 3%, 3.5% of customers who have inquired for restructuring, our COVID-related contingency also stands at just 0.1%. We do not have much provisioning on stage 2 and stage 1 assets. So how do we see that?

Sudipto Sil: No. First of all, to answer your question, is that there is absolutely no such attempt to under, I mean, provide for purpose of anything else because that is not the concern. As I mentioned, again, at the beginning also, Tier 1 is sufficiently above the threshold level of 12, and we have got absolutely, I would say, almost unlimited headroom for raising Tier 2 capital, which we can do at any given point in time, and we have also received the rating for raising Tier 2 bonds, and that itself can take us comfortably to a position where we do not have to worry about regulatory capital requirement for at least 2 to 3 years. In addition to that, as MD also mentioned, that parallel activity is also going on for an equity raise as well, but that, of course, right now, we would not need to give any further details before it is actually spelt out by the Board. So that is as far as the capital position is concerned. Secondly, your query was regarding the provisioning. Just a few minutes back, in response to another question, we had shared our view on the restructuring and the requirement of provision due to that, and we have said that whatever provisioning is there on the book today at a stage 3 level also, it is fairly high. It is not that it is underprovided, and many of these accounts could be an overlap. Secondly, there is a resolution which is likely on some of, a few at least of large-ticket accounts, which is likely to flow through in December because there is a visibility in terms of the stage of progress, and thirdly, as you have also mentioned, we have also created some buffer related to the COVID provisioning, significantly increased from Q1 levels.

Sanket Chheda: Okay, sir, my second and the last question is on, sir, strategy on growth or the mix of the AUM. So, despite having about 16%, 17% NPAs in project loans, if we see, the share of project loans has been moving up quarter-on-quarter. In this quarter also, the incremental sequential growth in project loans was 5%, while in individual, it was 1%. So, we have been guiding that the growth in individual will exceed the project loans or the non-retail growth, but as we see the share of maybe project loans has been going up, so how do we see that? And what do we guide on that?

Siddhartha Mohanty: Actually, if you see the project loan growth, those are existing customers, their disbursement because it is stage linked, construction is stage linked. So those amounts have been released subsequently. So that is why the portfolio has gone up, and very few, I do not think any new loans, 1 or 2 new projects we might have sanctioned, but mostly existing customers, their second phase, third phase disbursement. Those have happened. That is why it is showing growth.

Sudipto Sil: Which was actually held back in Q1 and Q4 because of the lockdown and has been released now, number one. Number two is that at the portfolio level, I do not know where you are coming from the fact that there has been an increase in exposure. The exposure remains exactly the same thing at 6.8% or 6.9%, wherever it was for the last 3 quarters.

Sanket Chheda: It has moved up to 7.2% from 7%...

Sudipto Sil: That is a very marginal increase because the overall pie has shrunk.

Sanket Chheda: Yes, and sir, lastly, the stage 2 reduction from 4% to 1.3%, while we still have 4% customers which are non-paying. So, is it right to assume that most of those customers would be less than 30 DPD?

Sudipto Sil: Come again, please?

Sanket Chheda: 30 DPD. So, stage 2 assets have reduced from 4% to 1.3%, while we do have 4% customers which are not paying. So, is it fair to assume that most of the customers will be 30 DPD or 0-30 DPD bucket?

Sudipto Sil: Yes.

Siddhartha Mohanty: Mostly.

Sanket Chheda: Thanks.

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

Umang Shah: I wanted to know if you could just give us some color on your LRD portfolio in terms of overall size, and how it would be split between commercial assets and mall assets? And how is that portfolio behaving at this point in time?

Sudipto Sil: Yes. As far as the LRD is concerned, I would say about 65% to 70% is in office IT spaces, etc. About 30% will be in the other categories, which includes the retailing, etc. As far as the repayment of it is concerned, as of now, I think they have been servicing quite well. There have been no issues. Some of them had avail of the moratorium and have come back on track.

Umang Shah: And I assume that the 3% restructuring number that you have given would include, if at all, any of these LRD assets have to be restructured?

Sudipto Sil: Till now, no.

Umang Shah: Okay, okay.

Sudipto Sil: These are mostly construction finance.

Siddhartha Mohanty: Project loans.

Sudipto Sil: Project loans and construction finance requests.

Umang Shah: Okay, and sir, a related question is that there were some media reports regarding sanctions to some of real estate groups like Vatika, Shriram Properties. Just wanted to understand the nature, whether this is construction finance, loan takeover, LRD?

Sudipto Sil: They are mostly construction finance and all of them are existing customers, all of them.

Umang Shah: Thank you so much. That is all.

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

Piran Engineer: Yes, I wanted to understand in our home loans, what percentage of disbursements are from BT?

Siddhartha Mohanty: Hello?

Sudipto Sil: Hello?

Piran Engineer: Yes, can you hear me?

Sudipto Sil: Yes, yes. A little louder.

Piran Engineer: In our home loans, what percentage of disbursements are from BT?

Sudipto Sil: From?

Piran Engineer: Balance transfer.

Siddhartha Mohanty: Balance transfer very, very negligible.

Sudipto Sil: 5%.

Siddhartha Mohanty: Less than 5% it will be.

Piran Engineer: Okay. Sir my next question is our 96% collection efficiency, that is only for individual loans or for total loan?

Siddhartha Mohanty: Total overall.

Piran Engineer: From total. Fair enough. All my other questions have been answered. Thank you.

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

Aditya Jain: Just a couple of things. One, could you tell us the increment in deals 1Q and also what they were by segment? And secondly, if you could talk about the Opex growth in this quarter, which appears a little higher? Is there any one time or such aspects in this quarter?

Sudipto Sil: Yes. As far as the Opex is concerned, you will find 1 item called other expenses, which is coming at 55 Crores, which is sharply higher than what it was in the Q2 of last year as well also Q1. See, earlier, we used to take it entirely at the third year, that is the expenses marked for corporate social responsibility, CSR, spends. They used to be marked at the end of the year in the Q4, but now we are appropriating it across the quarter, in each of the quarters. So that amount itself is around 31 Crores out of the 55 Crores.

Aditya Jain: Understood.

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

Mohit Surana: Sir, I had a question on the funding mix. Bond funding is pretty cheap, but I still see that our bank funding is increasing, and bonds are being repaid. So just wanted to understand why is that happening? Why would we not raise money fund?

Sudipto Sil: See, first of all, you have to understand the nature of the liabilities. Bank funding is a flexible funding where I can repay whenever I want to. Fixed income instruments like NCDs cannot happen. So there has to be a fair balance between these 2, and as long as the bank funding continues to give us good, I would say, offers, we will take it, but overall, it will be in the range of around 20% to 22%. The NCD borrowings, now we will get to see. The initial part of the year, especially Q1, we were going more for the bank funding because it was very clearly visible that rates of interest are going to come down, and just to give you an example, end of March, beginning of April, a 3-year paper could have been raised around 7.25%, which we did not do. Today, the same 3-year paper, we should be able to comfortably raise at around 5%. So that initial period of wait and watch where we did not go for the NCD funding and instead went for the bank funding has saved us at least on a like-to-like basis, between 150 to 200 basis points on a similar tenor fund raise.

Mohit Surana: Good, but now are you comfortable that at 5% you can raise and hence do not need to wait anymore because that benefit is not...

Sudipto Sil: Obviously. In fact, if you would see the recent fund raises that we have done on the bond side, they have been quite aggressive.

Mohit Surana: Correct, and this question is heard a few times at the starting but wanted to recheck again. In terms of builder, the NPA number is high, then we will have some restructuring. You mentioned September and October collections were pretty decent overall. So, should one assume that between the NPA and restructuring that is the stress in the space or how should one look at it? Or we need to wait for 2, 3 months more because the restructuring proposals can commence in December so that number could end up being higher?

Sudipto Sil: No, the number is not likely to be higher. It is not likely to be higher.

Mohit Surana: Got it sir. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Srinath from Quantum Mutual Fund. Please go ahead.

Krishnan: This is Krishnan. Can you hear me? Hello?

Sudipto Sil: Yes, yes.

Siddhartha Mohanty: Please.

Krishnan: Yes. Most of the questions have been answered. Just on that what would the numbers be if I include, if I do not include the Supreme Court ruling of nondiscrimination of NPA? And what is your...

Sudipto Sil: Around 300 Crores to 350 Crores, as we mentioned at the beginning of the call also.

Krishnan: Without Supreme Court?

Sudipto Sil: Yes.

Krishnan: And how do you see this number going ahead, say, in the next, let us say, 1, 1.5 years when things get into full-fledged estimation. So how do you see that number coming in that point of time? Besides the 3% restructuring which is coming in, what is the...

Sudipto Sil: Restructuring is not 3%. Kindly note it that we mentioned time and again, that is the inquiries.

Krishnan: Okay, I see, inquiries.

Sudipto Sil: Number of times we clarified. Kindly note it, I mean, please note it that these are the inquiries we have received. It is not restructuring that has been done. I think 2, 3 times we have clarified, again, at the sake of repetition.

Krishnan: Sorry, sir, that is my mistake, but how do you see the stage 3, say, 1.5, 1 years later? What was your anticipation?

Sudipto Sil: I think the worst is, to some extent, we can say that as matters stand now, it looks like things have stabilized, and we have seen, I mean, a huge event and despite that, we have seen that whatever we had feared, the outcome has been much better as compared to what was initially being thought of in the month of, say, April and May.

Krishnan: Okay, but do you see here that it, there could be a...

Siddhartha Mohanty: Besides, you see, some resolutions are on the final stage, as I told earlier. So, my sense is if this will be stabilized or maybe marginal increase will be there. It will not be very huge. It will be still less, see, 2.83%, we have come down to 2.79%. So, December, if you see, it will still be less because at a final stage of resolution, we have to get money. So that will definitely improve the NPA position.

Krishnan: Right, and just one another question. How do you see the NIMs going ahead? What, any cause on NIMs guidance you can give us on that?

Sudipto Sil: Last quarter, also, we mentioned very clearly that NIMs will be stable to positive, and I think we have been able to give that kind of a number. There should be stability with a slight improvement possibility. That is visible.

Krishnan: So, we do not see a compression?

Sudipto Sil: No. I said the reverse, actually.

Krishnan: Yes, yes, yes. I get it.

Sudipto Sil: Not compression, sir.

Krishnan: Yes, yes.

Sudipto Sil: I did not say compression. Did I say?

Krishnan: No, no, no. I said not compression. I said not compression.

Sudipto Sil: Okay, thank you.

Krishnan: Thank you.

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

Devesh Kayal: I just wanted to know the status of our any arrangement with IDBI Bank whether you will be following the HDFC Limited, HDFC Bank kind of...

Siddhartha Mohanty: No. No such thing at present. At present, there is no such thing yet.

Sudipto Sil: There is no such thing happening yet, but if there is anything, then it will be in that manner only.

Siddhartha Mohanty: Yes.

Devesh Kayal: Okay. That is, it from my side.

Sudipto Sil: So that is from our side, it is very clear.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take that as a last question. I would now like to hand the conference over to the management for closing comments.

Siddhartha Mohanty: So, thank you, friends. As we have been discussing in the past few calls during the course of the pandemic, I would like to assure you that the company is fully capable and geared to surpass these challenging times, and the past few quarters would have, we believe, provided some conviction to our investors. As we continue our journey, we remain committed to further improvement of our operational performance in the coming quarters. With this, I wish you and your near and dear ones a happy and safe Diwali. Thank you.

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