"LIC Housing Finance Q2 FY23 Investors Conference Call"

November 2, 2022

MANAGEMENT:	**MR. Y. VISWANATHA GOWD – MD & CEO, LIC HOUSING FINANCE LIMITED** **MR. SUDIPTO SIL – CFO, LIC HOUSING FINANCE LIMITED** **MR. ASHWANI GHAI – COO, LIC HOUSING FINANCE LIMITED**
MODERATOR:	**MR. PRAVEEN AGARWAL – AXIS CAPITAL LIMITED**

Moderator: Good morning, ladies and gentlemen. Welcome to the LIC Housing Finance Q2 FY '23 Investor Conference Call hosted by Axis Capital Limited.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you, and over to you, sir.

Praveen Agarwal: Thank you, Lizann. Good morning, everyone, and welcome to the earnings call of LIC Housing. From the management team, we have Mr. Y. Viswanatha Gowd – MD and CEO; and Mr. Sudipto Sil – CFO, to take us through the key highlights of the results. I would request Mr. Gowd to take us through the highlights, post which we will open the floor for Q&A. Over to you, Mr. Gowd.

Y. Viswanatha Gowd: Thank you, Praveen. Very good morning to all of you. I extend hearty welcome to all of you to the Post-Earnings Conference Call of our LIC Housing Finance Limited. As you are aware, LIC HFL declared its Q2 FY '23 results yesterday. I have with me our COO – Mr. Ashwani Ghai and also our Sudipto Sil – the CFO.

Prior to detailing the operation aspects, I would like to highlight that in the current fiscal year, RBI had increased the repo rate by 190 bps in four consecutive MPC meetings in line with the monetary policy tightening across the world due to inflationary pressure. Consequently, the company also raised its LHPLR by 175 basis points in the current fiscal year till date.

The key highlights of the quarterly results are as follows:

Total revenue from operations were 5,086 crores as against 4,708 crores for the corresponding quarter of the previous year. It is up by 8%. Outstanding loan portfolio stood at 262,336 crores against 237,660 crores as on 30 September 2021, reflecting a growth of 10%, out of which individual home loan portfolio stood at 216,771 crores as against 188,348 crores. It is up by 15%, and now it comprises around 83% of the total portfolio.

Total disbursements for the quarter were 16,786 crores as against 16,110 crores. It is up by 4%. Out of that, the disbursement in the individual home loans were 14,300 crores as against 14,330 crores disbursements. And then disbursements in the project loans were 407 crore against 353 crore for the same period previous year. It is up by 15%.

Disbursement for the quarter has been stable, and also there has been sequential improvement in the same. Housing demand continues to be fairly strong as we enter into festive season and into the second half of the year. Disbursements in the homegrown segment appears to be stable. The success of our HomY app has helped our company to improve penetration in the young homebuyer segment. Sanctions through HomY app during Q2 FY '23 were 9,159 crores.

Net interest income stood at 1,163 crores as against 1,173 crores for the same period in the previous year. Net interest margin for the Q2 FY '23 stood at 1.8% as against 2% for Q2 of FY '22. There has been a sharp decline in the NIM sequentially from Q1. As a conscious exercise, we have been retaining retail assets for better portfolio growth, especially on increasing rate environment.

Consequent to that, there has been some impact on modification loss to the extent of about 275 crores and has dented the NIMs for the quarter and also due to some lags in transmission of higher rates on the portfolio. Also with 115 basis points of repricing effective an entire portfolio from 1st October 2022, there is likely to be significant increase in the interest income in the current quarters.

Profit before tax for the quarter was at 378.85 crores as against 308.95 crores in Q2 of FY '22, a growth of 23%. Profit after tax for the quarter stood at 304.97 crore as against 247.86 crore for the same period previous year with a growth of 23%. In terms of asset quality, the Stage 3 exposure at default as on 30th September 2022, stood at 4.9% as against 5.14% as on September 30, 2021.

Total provisions as on 30th September 2022 stood at 6,521.89 crore, reflecting a provisioning covering of 44% as against 43% as on 30th September 2021. This includes 535.50 crore for COVID-19-related provisions.

ECL provision for assets recategorized as NPA as per RBI notification dated 12 November 2021 is 118.37 crores. There has been some improvement in retail assets, but it is over 700 crores across IHL, NHI and NHC. However, there is increase in NPA in the project by 540 crores. Overall, there is a decrease in Stage 3 sequentially.

Also, during the quarter, we have taken technical write-off of 191 crore in retail asset category. On the funding side, we witnessed an increase in cost of funds, which were 7.1% as compared to 6.76% as on 30 September 2021, attributable to consecutive repo rate hikes of 90 basis points by RBI in Q1 '23 and 100 basis points in Q2 '23. Incremental cost of funds also have inched up and stood at 6.89 for Q2 FY '23.

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

Moderator: Thank you. The first question is from the line of Mahrukh Adajania Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: So, why did margins decline so sharply, you said as a conscious decision to retain retail assets and also some lags? So, could you explain in detail what led to such a sharp margin decline?

Because I thought in the last call, we had guided to stable, to maybe slightly better margins. So, that is my first question.

My second question is that the leverage ratio is on the higher side. Now it's across 10. Not on an average, on a total asset basis. So, any thoughts on that on equity raise?

And the third is on NPL. So, NPLs stay higher than the 4Q levels, and they have inched up even in third quarter. So, any thoughts on that?

Sudipto Sil: Good morning, Mahrukh. This is Sudipto here. Of course, we just discussed about in the opening remarks, our MD mentioned about the retention, etc. As far as the margin is concerned, yes, obviously, there has been a sharp decline in Q2 as compared to Q1 and also year-on-year.

What was mentioned in the opening remark is that, and if you recollect in the previous calls, we have said that we are trying to retain assets, especially the high-quality retail assets we are attempting as a conscious strategy to retain those assets, especially in an increasing rate environment. And this also was as a conscious effort to move those assets from the fixed rate interest regime to the floating rate interest regime. And that is exactly the reason why this has happened.

There has been obviously an upfront discount or reduction in interest rate that was offered to those customers because they were basically very high-quality customers, almost like a zero NPA customers. But the overall thought there is to ensure that we are able to retain those customers with a long residual life in a floating rate environment.

And if you actually look at the fact after the retention was done, we had also increased the interest rates on the PLR several times to the tune of almost 175 basis points in the last four months or so. So, that is the reason why this impact of 275 crores which we had discussed in the beginning of the call. That is the reason why this has to be done as per the accounting treatment under the IndAS.

Y. Viswanatha Gowd: For the full year FY '23, we are very confident that we can deliver an improved over FY '22 margins.

Mahrukh Adajania: Got it. But this was like a proactive decision, or there were actually a lot of prepayments or takeovers, and that's why you choose this.

Sudipto Sil: See it is a combination of both. We are in a competitive industry. And there will always be competitive pressures and people who would like to move out. So, it is actually a conscious effort, a conscious decision taken that, yes, we need to retain good quality, high-quality customers with very good CIBIL scores. And also we have to ensure that they are not in a fixed rate regime, because in an interest rate environment which is increasing, a fixed rate regime is actually not conducive for the overall annum. So, it's actually a decision taken on both the accounts. And it is actually a decision which is taken keeping the next several years in my not only one quarter.

Mahrukh Adajania: And now is all the conversion fully done? Or you could see some more in the third quarter or so?

Sudipto Sil: Yes, unlikely, unlikely. Very unlikely.

Mahrukh Adajania: And on NPL and leverage?

Sudipto Sil: Leverage, I think we are comfortable. In fact, if you look at the tier 1 and especially with the skill-based regulation kicking in, the requirement of tier 1 actually is lesser than the earlier NHB regime, which used to be around 10%. Now the tier 1 requirement has been reduced to 9%. But overall, if you look at the leverage, it is still within the, I mean, substantially within the range of the allowable limit. It is around little less than 10, 9 point something.

Mahrukh Adajania: And NPL? And also the technical write-off, what was that on? And it's through the P&L. Is it or it's -

Sudipto Sil: See, actually, there has been some improvement in the last call. We had said that there will be an improvement on the recovery. It was visible, if you recollect. And within the quarter itself, we have been able to, I mean, improve the collections and reduce the NPLs by almost 800 crores, and that has happened through on-ground collection. There has been some deterioration in the asset quality in the project loan side. And also, the percentage is getting further distorted because the outstanding loan in the project loan category has also come down sequentially by almost 5%, which on that base is quite significant.

Pertaining to your other query on the technical write-off, yes, the technical write-offs mean that we on-ground follow-up recovery, legal, everything continues as it is. But these are loans which have been more than three or four years NPA, more than four years NPA, and they have been fully provided for. So, this is actually done through the P&L as is required in the IndAS accounting system.

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

Dhaval: So, just on margins, again, so on the yield side, you mentioned that certain loans were converted from fixed to floating. If I look at the data, about 2% is the increase in floating, which translates to about 5,000 crores. So, what's the impact, the NII impact of this fixed to floating, if you could just quantify to get a sense of what's the overall magnitude of change that we have seen in this particular quarter?

And the other related point is we, apart from this impact, we highlighted last quarter that from 1st of July, we had taken 60 odd basis point PLR hike. We do not see the impact in the numbers in this quarter. Any specific reason again?

Sudipto Sil: Yes, Dhaval, actually, I'll take your second question first. If you actually look at the spreads and you compare it with the average cost of funds, the spreads actually are reflecting a 7 basis points expansion over June numbers. And you know that the cost of fund has increased point-to-point by about 40 basis points.

So, the translation of 60 basis points on the PLR generally happens with a lag, because not all the accounts are eligible for repricing, especially the NPA accounts and accounts which have been freshly disbursed. But apart from that, it has been translated. But that 7 basis point is because there has been a corresponding 40 basis points increase on the cost of funds during the same period. But certainly, it has got translated.

You are probably not getting to see it reflected on the margins. I understand that is your query, and that has happened because of the reasons that we just discussed because of certain lumpy items on the negative side of the income has probably weighed down the increases.

And also, one has to keep in mind that sequentially, there has been a shrinkage in the project loan portfolio by 700 crores. And year-on-year, it has come down by almost 2,000 crores. Project loan is the high-yielding portion of our book which earns us interest, average interest of around 12 to 13%. So, there also, there is an impact of reducing interest income on the project loan, which has led to a reduction in the overall increases on the revenue from operations.

Y. Viswanatha Gowd: Compared to last year, more than 20% reduction is there in the book size for loan.

Sudipto Sil: Yes. So, that is also having an impact. That is the reason probably why you are not getting to see the increases in the income corresponding to the increases in the splits.

Dhaval: Sudipto, could you quantify the specific impact of fixed to floating in absolute rupees crores, what's the kind of impact hit we have taken?

Sudipto Sil: See, I'll tell you, exactly what I'm telling that is precisely what we said. The 275 is the accounting loss that has been or modification loss that has been accounted in this quarter.

Dhaval: Apart from that, any other item?

Sudipto Sil: Yes. Apart from that estimated about 95 crores reduction in the interest income from the project loan side. These are the 2 bigger impacts. Around 360 odd crores.

Dhaval: Yes. So, even if we adjust these two items, the NII would have been 15, 30 or 15, 25 crores approximately compared to 16, 10.

Sudipto Sil: No. It would have been closer to that because there also is the fact that there has been increases on the cost of funds side. The interest income notional gain on the net of the increases in the spread side would have resulted to 200 crores. Around 220 crores is the actual increase in the cost of funds. So, 20 crores come out from that. So, there are small, small pieces which keep on adding.

Y. Viswanatha Gowd: Impairment of 70 crores.

Sudipto Sil: Yes. So, these are small, small 20, 30 crores from here and there, but majority of these two are this 275 and this 95. That means total will be around 450 odd crore will be the difference.

Dhaval: Yes. So, the point, Sudipto, actually the first part which you replied saying that actually the spreads have expanded. My point is that even if you adjust for the new cost of fund, the delta, 200 crore delta we saw in the interest expense line, even adjusted for that, the NII is not going up, which is the whole point that there is some other impact which we are not able to figure out to say that -

Sudipto Sil: No, these are the only two major impacts. Actually, these are the only two major impacts.

Y. Viswanatha Gowd: That's all. Nothing else in that.

Sudipto Sil: Obviously, there will be cases of normal retirement of existing loans, which would have been going at higher cost. That also is there. That is a normal behavior. So, there is nothing abnormal. So, every quarter, there will be this kind of normal repayment led decline in interest income if a high cost loan goes off the book in a normal manner, not in a pre-closure manner.

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

Abhijit Tibrewal: Kind of coming back on the NII and the margins, while you have explained what led to the sequential decline in NII, I mean, what we are trying to understand is, what proportion of this could recur again in the third and the fourth quarter? Components of modification loss or this continued reduction in interest income from project loans and a couple of other things that you highlighted are smaller pieces. What part of it could again recur in the third and the fourth quarter? Alternatively, if they will not recover, is there a case for estimating a strong recovery in margins, especially in the fourth quarter of this fiscal year?

Sudipto Sil: Yes. Third quarter only from 1st of October, there is a pending increase of 115 basis points in the entire pool of loan book. That is around 2.5 lakh crores. And that has already kicked in because whatever increases in the PLR we had done in the second quarter in August and September, that has already translated from 1st of October. So, that impact will certainly be a positive accretion to not only the spread, but also to the net interest income. So, that is one thing which is there.

To the extent of what is going to be the prepayment on project loans, I mean, I think the project loan portfolio has shrunk to an extent that further exits are very limited, especially the high yielding. And there also, if necessary, we might actually retain good assets and offer a better rate of interest. So, that is again a commercial call that we will be taking as and when such situation arises, and disbursement growth on the project loan is expected to nullify such shrinkages in Q3 and Q4.

Y. Viswanatha Gowd: And already in the current quarter, Q3, even the month just now ended also has some good results almost in the collection efficiencies.

Sudipto Sil: It is understood that whenever any such retention is done, it is done on assets where the credit cost is 0 or near 0. So, the asset quality is of primary focus that is -

Y. Viswanatha Gowd: It's there for long.

Sudipto Sil: And the repayment on those assets are substantially long so that any kind of, these kind of front-ended losses will be more than offset by the continued earnings on those assets.

Y. Viswanatha Gowd: Retention.

Sudipto Sil: And especially, if it is a conversion from fixed to floating in a high increasing rate scenario.

Abhijit Tibrewal: Sir, I mean, again, a related question here. I mean, I recall, even last quarter and this quarter, we talked about various retention exercises that we have taken. And like you explained for top-notch quality customers where credit costs were very low or 0 like you explained. So, is there a significant kind of pressure on customers wanting to take balance transfers, I mean, primarily because of the interest rates, which are being offered and because of that, we had to do this retention exercise? And like you have another 2% of fixed rate book outstanding, can we expect that, let's say, over the next two quarters, these 2% customers will also be converted into floating rate and would lead to, again, some kind of a NPV impact or a modification loss?

Sudipto Sil: See, actually, the retention of good quality assets is always a desirable proposition rather than allowing the assets to go and consume further expenses to originate further new assets. If you have got a track record tested customer, it is always better to retain such customers. And obviously, everybody will be looking out for such customers.

But if you are having those customers within your fold, then you should be able to retain them. So, that is a strategy that asset growth has to be given that priority. But more importantly, it is not an asset growth, which is given priority irrespective of quality. It is an asset growth which is given priority with the best quality.

Y. Viswanatha Gowd: And also, with the long duration also.

Sudipto Sil: And with a significantly long duration which will continue to earn in future.

Y. Viswanatha Gowd: Correct. That's what it is.

Abhijit Tibrewal: Sir, last question is on the asset quality bit. Firstly, if you can share the product-wise gross three numbers that you share on different product segments. So, home loans, non-housing individual, commercial and project loans as the first. And secondly, sir, last quarter, you talked about, I mean, there could be potential slippages from the restructured pool. So, firstly, how has experience been on that front in the second quarter? And in the third and the fourth quarter, is there a reason to believe that, I mean, in the restructured pool wherever moratoriums are going to open in the third and the fourth quarter, we could see some slippages from the restructured pool that particularly in the second half of this fiscal year?

Y. Viswanatha Gowd: Especially in the, what you call, there is a slight improvement as far as asset quality is concerned. And even compared to earlier quarters, of course, there is slippage in the earlier quarters even into our developer book. Now retail segment is showing good improvement. And going forward, that should still improve.

IHL, if you look at only IHL now, Individual Housing Loan, our stage 3 level is, I think, the ratio comes to around 1.68 stage 3. MHC is around 22.38%. And non-housing individual, it is at 6.85%. And project is around 42.24% as far as the stage 3 things are concerned across all products.

Abhijit Tibrewal: Sir, project, did you say 22.24?

Sudipto Sil: 42.24%.

Y. Viswanatha Gowd: 42.24%, because book size has come down. There is shrinkage in the book size over last year up to more than 20%. Obviously, even the absolute volume has not gone up in the quantum, but the percentage has come down.

Abhijit Tibrewal: And finally, what is the expectation of slippages from the restructured pool?

Y. Viswanatha Gowd: Restructured pool has been behaving slightly, I would say, stable. And in fact, what we had indicated in the previous call also that there will be recovery on the other side, especially in the retail side. That is something which is working out well. So, 700 crores of NPA has been reduced on the retail segment, and that has happened across individual home loans as well as the LAP loans etc. So, there is certainly some decent improvement.

Moderator: Thank you. The next question is from the line of Mayank Bukrediwala from Citadel. Please go ahead.

Mayank Bukrediwala: I kind of harp on the same question that Dhaval was asking. Just want to clarify so that 277 crores, the impact of NPV is passed through the interest income line. The question is, if I add that back also, and adjust it, and if I adjust the other 90 crore also, your loan yields this quarter on a calculated basis appears to be at best flat while we had taken a 60 bps PLR increase at the very start of the quarter. So, just wanted to understand, is there any other impact or has there been an issue in passing through the rates? That's question number one.

And the second is, you are speaking about sort of retaining customers, the good quality ones. But right now, we are actually at a relatively large differential versus banks at the rates that we offer, because banks have ballpark passed 100 to 140 bps rate to their customers, while we have passed close to, I mean, till the last quarter, 60 bps, but there is still some gap versus what we have passed versus the banks. So, why are we seeing this pressure to retain the customers? Ideally, we should have some bank customers move to us, because I think our rate is still relatively lesser compared to the bank.

Sudipto Sil: No, Mayank, your second question regarding that, there is a gap. Actually, the data is on the, it is on the back book. And it is already communicated. The effect will be from 1st of October.

Mayank Bukrediwala: Yes. So, the question is you ideally at least until now, you would not have seen any pressure at all because -

Sudipto Sil: No, it doesn't work that way, because once there has been a PLR hike announced in public domain, it is very clear that it will get impacted, and the dates of impact are also predetermined like 1st October 1st January etc. The difference what you said in the beginning of your query, your first query is that, yes, there is a lag, because in our case, we reprice it on a quarterly basis. That is 1st October 1st January 1st April and 1st July. So, that is one of the reasons why there is a transmission lag that also our MD mentioned at the beginning of the call. But having said that, the fact is that what -

Mayank Bukrediwala: The hike that we took at the very beginning -

Sudipto Sil: 60 basis points. I'm coming to that. Yes, I'm coming to that. The 60 basis points, which has happened in June, that is effective from 1st of July, for which we get a 2-month benefit that it is payable. It is due from July, payable August, because that is how the EMIs are done across the country. In the industry, it is on AS basis. So, the 200 crores is the impact of that transmission, which should have actually got reflected in the interest income.

Mayank Bukrediwala: For two months, which is at least we should see on this -

Sudipto Sil: Correct. But there has been a 220 crores of interest cost also which has increased during the similar period. So, that has got netted off.

Y. Viswanatha Gowd: 240 crores.

Sudipto Sil: 240 crores. So, that has more or less netted down. Now, your query is that, what is the gap between the June NII and the September NII? Is that right?

Mayank Bukrediwala: I am not talking at the NII level. I am simply talking at the yield level. Just at the yield level, if I just look at the yield and add that 277 plus the 90, even then the yield does not really go up when you have taken at least two months of 60 bps repricing.

Sudipto Sil: No, Mayank, it has actually come, because if you compare the yield on the assets between June and September, there is a 47 basis points increase in the yield, overall yield. And there is a 40-basis point corresponding increase in the cost of funds. So, the yield of 47 basis points has actually come.

Mayank Bukrediwala: I will recheck my numbers.

Sudipto Sil: Please check. There is a 47 basis points increase, which has actually happened on the yield side, point to point basis.

Mayank Bukrediwala: I will recheck my numbers.

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

Umang Shah: Just wanted to confirm, at least you have mentioned that FY '23 full year margins should be better than FY '22? Just wanted to confirm that.

Sudipto Sil: On a full year basis. Yes, full year basis.

Umang Shah: Yes, on a full year basis. Okay. So, FY '22, we were 2.3% on a full year basis. FY '23, we should be better then?

Sudipto Sil: 2.29.

Umang Shah: Yes, 2.29. That's correct. The second question is on what proportion of our loans would be, let's say, partly fixed come floating, if at all, we have such loans?

Sudipto Sil: There will be some very small, maybe around 1% or so.

Umang Shah: Okay. So, basically, fair to assume that about 97, 98% of our loans would be purely floating in nature?

Sudipto Sil: Correct.

Y. Viswanatha Gowd: Yes, correct.

Umang Shah: And just last data point. What's our outstanding restructured book now as on end of September?

Sudipto Sil: 3,466.

Y. Viswanatha Gowd: One point some percent. More than a percent.

Umang Shah: And what proportion out of this would still have moratorium on it?

Sudipto Sil: This is the moratorium piece only. This is the amount which is not exited from the moratorium NPA. So, that is the reason why it is still considered under the OTR pool.

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

Kunal Shah: So, first, 275 crores, in fact, is on what quantum? If you can just mention by quantum that will be, is it on 5,000 crores, which is reflected from say, fixed to floating, or it is on entire 15,000 crores wherein we gave the benefit last time to retain the customer? And what was the yield reduction? So, if you can just first, let me know the quantum?

Sudipto Sil: About 9,000.

Kunal Shah: So, on 9,000 crores, this is almost equivalent to 3%.

Sudipto Sil: No, it is not 3%, because it is actually, it does not work linearly. It is a front-ended calculation depending upon the residual life of the asset which is estimated around 9 years or so.

Kunal Shah: Yes. So, 9,000 crores of exposure and 275 crores impact, so that maybe in percentage, it clearly translates to 3 odd percent.

Sudipto Sil: No. It is not 3%. It is not 3%. The reduction is not 3%. It is the NPV of the deduction.

Kunal Shah: Yes. No, I understand that. I am saying not the reduction. I am just saying that impact or the modification loss is 3% of the exposure through NPV.

Sudipto Sil: Yes. That way, if you just linearly calculate, yes.

Kunal Shah: Yes. So, when we look at it, now after all the modification and all, how much is the yield that will accrue in future on this portfolio?

Sudipto Sil: Yield in terms of, the increase in yield you mean to say?

Kunal Shah: Yes.

Sudipto Sil: Yes. See, your calculation is not correct because, first of all, it is not a 3% reduction. That 3% you had actually -

Kunal Shah: I am not saying 3% reduction. I am not saying reduction. That is okay. 3%, I understood. Let us keep it aside now. Now what could be adjusting rate?

Sudipto Sil: So, that calculation is not correct. So, just to give you an indication, whenever from the point when we had started converting these loans from that point-to-point, we have increased our PLR by 175 basis points. And it has come to floating. These are all floating. And point-to-point rate increase is 175 basis points. Of course, it has not happened in one particular day. It has happened throughout the quarter.

Kunal Shah: Yes, 60 plus 115. So, that 175 bps entirely is passed on by way of the benefit? Or how is it in terms of the reduction? In terms of the benefit to those clients, it's been 175 basis points benefit, which has been passed on when they converted?

Sudipto Sil: Yes. Roughly, you can say. Now it has been almost netted off.

Kunal Shah: And going forward, this book will now yield 8 odd percent only, or it will yield a higher number.

Sudipto Sil: No. Currently, it will yield more than 8%. At current level, it will be around 8.5%.

Y. Viswanatha Gowd: It is the present applicable floating rate.

Sudipto Sil: As of floating rate, it will be charging 8.5%.

Kunal Shah: And then 115 bps impact, which comes through from effect from November, that will now, again, not have any implication on this book?

Sudipto Sil: No. I am considering that also, because it is already affected from 1st October.

Kunal Shah: No, but September results, it might not be there. So, is it there in the number -

Sudipto Sil: No, September result is certainly not there. It is certainly not there.

Kunal Shah: So, will it further come?

Sudipto Sil: Yes, it will come in Q3. The benefit we will be seeing in Q3.

Kunal Shah: And when we look at it in terms of the restructured pool, so last time, the commentary was 3,100 crores, out of which 2,100 was individual and 1,000 was wholesale. So, the slippage which has happened of 450 odd crores in projects, is it from the restructure or it is outside of this restructured of 1,000 crores because that number -

Sudipto Sil: Can you please repeat the last portion?

Kunal Shah: NPA in the project book, you said that was 550 odd crores. Delinquency slippage was 540 odd crores.

Y. Viswanatha Gowd: 540.

Kunal Shah: Yes, so that is from restructured pool or that is outside of restructured pool?

Sudipto Sil: Yes. Half of it roughly is pertaining to a restructured book.

Kunal Shah: So, that has already slipped.

Sudipto Sil: Around 350 is from the restructured book.

Kunal Shah: 350 is from the restructured book. So, then why actually last time 3,100 crores of restructuring and even after the slippage, now what we have disclosed is 3,466 crores of restructured pool, because there is the movement which has happened, and it has moved out of the moratorium and slipped as well. Then why there is an increase actually?

Sudipto Sil: No, there is this 370 crores has already been removed from the restructured asset, restructured pool. As of 30th June, it was not there.

Kunal Shah: It was not there, but it slipped in this quarter. Maybe it was already out of moratorium last time itself.

Sudipto Sil: Yes. It was not there.

Kunal Shah: So, still there is 1,000-odd crores in the individual outside of it. So, when we look at it 3,466, how much is individual and how much is project?

Y. Viswanatha Gowd: Just a minute. We will give the break up to you.

Sudipto Sil: The corporate is around 2,093 crores, and the other one 1,373.

Kunal Shah: So, last time, corporate was 1,000 crores.

Sudipto Sil: No. 1,000 crores is exited. 1,000 crores is exited.

Kunal Shah: Because last time, I thought number was 3,100 crores, out of which you mentioned 2,000 is toward the retail and 1,000 towards non-retail.

Sudipto Sil: It was 2,200 and 1,544. What is remaining; not what has exited. What has exited, you are right. That number exited.

Kunal Shah: And any risk on the slippage, which we see from this pool? Because we have already seen 875 crores of slippage from the pool that was outstanding as of March. So, any further slippage which we expect from here?

Y. Viswanatha Gowd: Going forward, I think, now we are actually, we are not foreseeing any such big slippage, but maybe very small insignificant amounts will be there.

Sudipto Sil: Now with the passage of time, we are getting some more, I would say, clarity that probably the quality at least for the time being, is holding up.

Kunal Shah: And lastly, in terms of the skill base, would there be a requirement to increase the coverage on stage 1 and stage 2 because that's still at 6 odd basis points from stage 1?

Sudipto Sil: See, that June 6 circular was already operational for housing finance companies for many years. And this June 6 circular only has been incorporated in the skill-based regulation.

Kunal Shah: So, we can still continue with 6 odd basis points of provisioning on stage 1.

Sudipto Sil: Correct.

Moderator: Thank you. We will move onto the next question that is from the line of Ashwini Agarwal from Edelweiss Mutual Fund. Please go ahead.

Ashwini Agarwal: In the financial instrument, which you had written down roughly 190 crores, was it fully provided for?

Sudipto Sil: Yes, it was really provided for. It is actually not one account. It is almost 950 retail accounts.

Y. Viswanatha Gowd: Yes.

Ashwini Agarwal: But if it was fully provided off, then why it had to be written off, because it is going to be fully -

Sudipto Sil: It has to be as per the IndAS. As per the IndAS, what actually happens is that you have to pass it through the P&L. It has to be passed through P&L, irrespective of the fact that there has been a provision or not.

Ashwini Agarwal: But is it in double accounting, but you have already provided?

Sudipto Sil: It is not. In fact, we had also iterated on this internally, but it is not that way. In the IndAS, what actually happens is that, see, there are two different systems of provisioning that happens that is RBI-based, IGAAP based on RBI IRAC norms and the IndAS ECL, which is basically on the probability of default, loss given default, and which actually depends upon the value of underlying security.

So, when we actually move it, say, for example, a loss asset, which is more than 5 years or more than 51 months, then as per the RBI IRAC norms, it is a fully provided loss asset, right? But as far as the ECL is concerned, it does not necessarily follow that same pattern of provisioning. The provisioning depends upon the PD, the probability of default, LGD that is the loss given default and the value of underlying security, which drives the loss given default. So, what actually happens is that when you write off something which is fully provided as per the RBI IRAC norms, you have to also pass an entry to ensure that the entire asset is removed from the ECL provisioning.

Ashwini Agarwal: So, you mean to say in ECL provisioning terms, it was not fully written off. So, you had to do it?

Sudipto Sil: No, it might have been fully provided. It is not written off. It might have been fully provided. But irrespective of that, you still will have to move it to the P&L. And there is no double accounting. We have checked that.

Ashwini Agarwal: And secondly, the fixed rate loan, which was converted in this quarter, when was this generated? Because if I recollect properly, RBI had clearly said that fixed rate loans, housing loans cannot be generated. So, when was this generated?

Sudipto Sil: No, who said that? Who said that? Fixed rate loans today also are being sold. It cannot be fixed-cum-floating. Even there also, there is no such, it cannot be a step-up kind of a teaser loan. But fixed rate loan today are also being sold. Every company and bank has got a fixed rate loan offering. You can also take a fixed rate loan from any bank or HFC. It was not banned by Reserve Bank.

Ashwini Agarwal: When were these loans generated?

Sudipto Sil: They would have been generated about 4, 5 years back.

Ashwini Agarwal: And sir, another last thing, which I wanted to know, in the rising interest rate scenario, why would a customer typically move from a fixed rate to floating rate?

Sudipto Sil: No, it is not the customer who necessarily has to move. If the company is facing, I would say, or I would say, put it this way, if the company feels that we are better off in a rising rate scenario for a longer period of time to move it to a floating rate, that is the initiative that the company will also take no?

Ashwini Agarwal: And sir, my last question, you had earlier guided for roughly 2.2, 2.3% NIMs for the entire year and 1.2% ROA. Do we still stand by that?

Sudipto Sil: Last year's NIM was 2.29. A few minutes back, our MD has also said that we will do better than last year's NIMs on a full year basis.

Ashwini Agarwal: And ROI of 1.2%.

Sudipto Sil: 2.17% for the half year.

Ashwini Agarwal: And what about return ratios ROA? Will we be around -

Sudipto Sil: ROA will be also correspondingly increased. We cannot have a ROE and NIM movement without a corresponding ROA improvement. And 115 basis points of repricing is already effected from 1st October.

Y. Viswanatha Gowd: October.

Sudipto Sil: 1st October means that you will get an impact for 2 months during the quarter, November, December. But there has been 175 basis points increase, which will translate to an obvious improvement in the ROA. And as I mentioned just a few minutes back, the spreads have already started reflecting some increase over June.

Moderator: The next question is from the line of Rikin Shah from Crédit Suisse.

Rikin Shahl: I have three questions. So, looking ahead, if we look at the yields on advances, which as of first half was 8.6%, now with 115 basis points of increase from 1st October, do you expect that this could probably be increasing by 90, 100 basis points from the current run rate in the second half? Is that a fair understanding? Or that may not play out?

Sudipto Sil: No, going by the previous, I would say, instance, there are some NPLs on which the yield benefit does not accrue because, obviously, you don't collect anything.

Secondly, whatever disbursement you do during the quarter that also doesn't get covered under this immediate rate hike. So, in the previous one, that 60 basis points has led to a 47 basis point yield improvement. Going by that, you can expect at least 80 to 90 basis points yield improvement.

Rikin Shahl: And in terms of the weighted average cost of funds, which is at 7.1%, how do you foresee that moving in the second half?

Sudipto Sil: I would say that a good amount of the impact has already been absorbed, because the successive rate hikes, most of the liabilities, which are on the floating rate side was linked to the repo and the external benchmark that is the one-year T-bill, 364 days T-bill.

Going by that, I would say the majority of the impact for the rate hike that has happened has been factored in. You will get one more impact a little bit. Maybe 15 to 18 basis points impact will come because of the rate hike of September. 50 basis points repo hike of September will translate to around 15 to 18 basis points increase in the weighted average cost on the entire book. And then we have to see what is the increases by Reserve Bank going forward in December that will outline the future increases.

But as far as the overall cost of fund is concerned, one thing is very, very clear, that whatever are the repo policy rate hikes, the cost of funds will increase by about less than 50% of that on the entire book.

Rikin Shahl: And sir, if I just triangulate these numbers, 80 basis point increase in the asset yield and another 20 basis points increase in cost of fund, assuming no further rate hike, the margins should increase by 60 basis points. So, the spread should increase by 60 basis points in the 3Q?

Sudipto Sil: Correct.

Rikin Shahl: Fair enough. Second, just a clarification on this 191 crores retail write-off. I heard your explanation on difference between the RBI IRAC and the IndAS norms. But let's say, if this asset was Rs. 100 asset. And even as per ECL, you had provided completely as you stated. So, the provisions against that was Rs. 100. So, now why is there a need to further provide or to write it off? Or why additional charge on the P&L to write it off?

Sudipto Sil: Actually, you have to remove the entire assets from there. What is the outcome of it? Or what is the impact of it? So, when you actually pass it through the P&L and which means that notionally, your provision on ECL remains intact. It means that you are actually having a slightly better provisioning coverage ratio.

Rikin Shahl: So, if your ECL provision was already -

Sudipto Sil: On the remaining assets. On the remaining part of the stage 3 assets.

Rikin Shahl: So, basically, what you are saying is that to maintain the overall stock of ECL coverage, you had to kind of take additional charge in the P&L so that the overall ECL coverage doesn't go down.

Sudipto Sil: Correct. Absolutely correct.

Rikin Shahl: So, basically, this charge is not related to the write-off that we did. But it is just to maintain the coverage levels, you took this additional -

Sudipto Sil: Yes, but the only thing which I would like to submit is that had it been under the RBI IRAC and IGAAP, then probably this entry would not have been required.

Rikin Shahl: Sorry. Could you clarify this a bit more, so that I understand better?

Sudipto Sil: Had it been a fully provided case under the IGAAP, RBI IRAC norms, and then you want to write it off, then probably this entry would not have been required.

Y. Viswanatha Gowd: IndAS (Hindi language 00:49:56).

Rikin Shahl: So, this was fully provided under IndAS, but not under IRAC and hence, this thing?

Sudipto Sil: Something like that, yes. I think we got it the other way around.

Rikin Shahl: This is still a bit confusing, but I will move on. Just on the restructured part out of total 3,466 crore, you did mention the split between the corporate and retail. Could you repeat that? And also, I would like the split of this same amount, what would be in the stage 2 and in the stage 1?

Sudipto Sil: Stage 2, stage 1, I will not be able to give you offhand. But as far as the OTR is concerned as on 30th September, it is 2,093. 2,093 crores. This is the stage 3. 2,093 crores on the corporate side. That is the builder side. And on the retail side, it is 1,374. And stage 2, actually, the entire OTR, this OTR is actually stage 2.

Rikin Shahl: The entire 3,466 is sitting in your stage 2?

Sudipto Sil: Yes, but stage 2 has got other assets also, but this one is, I mean, the entire OTR is in stage 2.

Rikin Shahl: So, last quarter, 1,000 crore was in stage 1. Now, all of this is sitting in stage 2.

Sudipto Sil: Correct. If you recollect in the last quarter, what we have done is that we have moved that you will find the reference in the call also. We had moved the assets in the last quarter itself to their status pre-existing before the impact of OTR.

Rikin Shahl: And the last one is in the absolute amount terms, what would be the NPA number for non-housing individual and non-housing commercial? Last quarter -

Sudipto Sil: Non-housing individual, this stage 3 is 1,740. that is for the NHC. NHI is 1,766.

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

Piran Engineer: Just to clarify once again on the spread thing. So, four, five years back, there were these fixed rate loans, and we have now been repriced downwards technically, and that's why we have an NPV loss of 275 crores.

Sudipto Sil: Correct.

Piran Engineer: So, in the last 2 years, when interest rates are much more benign, isn't it logical that they would have done it back then? And also, why did we not leave it as fixed rate loans, unless we are expecting significant further floating rate hikes in the next coming years?

Sudipto Sil: So, your first question is that when it was actually going down, it would not have been positive for the company to reduce it at that point in time, because it would have led to erosion in the yields.

Piran Engineer: No, but the borrowers have wanted it, right? The borrowers would have wanted it?

Sudipto Sil: The borrowers would have wanted it. But probably from our side, we have somehow managed to convince that this is not the correct time to move. And now we have effected that movement.

Piran Engineer: And just in terms of your retained 9,000 crores of retail assets from BT out, again, the question here is that the banks have also increased rates a lot. So, where would they BT out, if at all?

Sudipto Sil: Yes, I am not getting your query.

Y. Viswanatha Gowd: Not a BT. BT has not gone no?

Piran Engineer: No. So, you will try to retain 9,000 crores of home loans and you will give better rates, right? The point is in this retention strategy, there was no other choice for the customer but to be with you all, because he could not have gone through banks -

Sudipto Sil: No. That is not correct. That is not correct. You have to understand that for most of the other, I mean, most of the banks, there is a substantial difference between the onboarding rate and the back book. So, the onboarding rate comes with a lot of offers and discounts and waivers of processing fee etc., just to onboard the customer. But the back book is different, the existing customer, and there is a gap between the existing customer pricing and the customer pricing for the onboarding or for the promotional offers. There is always a gap across all banks in the system.

Piran Engineer: So, your best quality customer, absolutely prime CIBIL score 800 and at floating rate today, what will be this rate after all the PLR hikes we have taken?

Sudipto Sil: 8.3.

Piran Engineer: 8.3 is the lowest. That's the best guy, right?

Sudipto Sil: Correct.

Piran Engineer: And sir, this 95 crore reduction in interest income from project loans, what exactly is that about because we haven't discussed that?

Sudipto Sil: Because of the shrinkage in the portfolio, number one. And number two is that, as we mentioned, the 540 crores of assets have been classified as NPLs in this quarter, so reversal of income on that.

Piran Engineer: And just lastly, we have seen a 10% jump in the OTR book from 3,100 to 3,460. So, really what explains that? Is this accumulation of interest or?

Sudipto Sil: No, there is no such accumulation of interest, because there is not, there may be some residual accounts would have been there.

Y. Viswanatha Gowd: It is 3,466.

Sudipto Sil: 3,466 is the final. Correct.

Piran Engineer: No, but it was 3,100 last quarter and restructuring has, it was not done incrementally in the quarter, so it increased.

Sudipto Sil: So, it could have been the case that some part restructuring, which would have been affected, there is no slippage. That is just restructuring.

Y. Viswanatha Gowd: It has moved out.

Sudipto Sil: Last year, it was 3,766 as on June, 1,544 and 2,222. 300 has actually come down. Not the other way around. 3,100 had moved out. I think the number that you are getting confused is the 3,100 had moved out of the OTR last quarter.

Y. Viswanatha Gowd: Overall percentage is around 1.3 only no? 1.2, 1.3.

Piran Engineer: This makes sense. Just one request, sir. If many of these numbers are not in the PPT, if you could just enhance the disclosures in your PPT that would be really helpful. It just makes it much easier.

Sudipto Sil: So, this OTR number is actually a published number. It is not accounted as published the full detail.

Piran Engineer: Not just OTR, just only in general and extra and all the one-offs that happened in a quarter, that would be helpful.

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

Roshan Chutkey: On this 275 crores, just a basic question. Why did you have to do the NPV calculation at all for this 9,000 crores assets basically?

Sudipto Sil: No, that is required as per the IndAS guidelines, IndAS 109 no?

Roshan Chutkey: Yes. No, I was just trying to understand, is it because of the fixed to floating? Is it because we never saw any other lender do this kind of a thing when you reduce the rates or increase the rates, right? Why would you do the NPV calculation? And it's just the interest income that you, for example, if it moves from 7% to 8%, rather the other way around, then you will have a hit of -

Sudipto Sil: No. Roshan, it is not that way. Whenever there is a modification of any financial contract, there has to be either a modification gain or modification loss. Wherever there is a modification. Now when we are moving some assets from fixed to floating or it can also happen from floating to fixed either way, then this will be treated as a modification. And then it has to be calculated, what was the rate of interest, which was applicable on the earnings that were applicable on an EIR basis that is expected interest rate, what was it earning prior to the modification, and what is earning post to that? And whatever is the difference, that has to be applied over the residual life of the asset and discounted at the present value. And that is how it is absorbed.

The logic behind that as per IndAS is that all your assets are either financial assets or financial liabilities, and whenever there is a modification of any of the financial assets vis-a-vis to its earning capacity on a particular day. Then it has to be accounted for in the value. And it has to be taken through a P&L impact. That is very clear. That is the standard 109, IndAS 109.

The reason why it probably has not been visible is that probably the number had been small. So, it would not have, I mean, resulted in any major kind of a requirement for clarification because here the number is very large. That is the reason why it is getting reflected.

Moderator: Thank you. We will move on to the next question that is from the line of Sandeep Jain from Baroda BNP Paribas Mutual Fund.

Sandeep Jain: Just one clarification on the ECL side, and the write-off has to be moved to the PL side. Has our PD and LGD has increased, assessment of PD and LGD has increased from the last quarter or last year or so?

Sudipto Sil: No, not at all.

Sandeep Jain: Just I'm trying to understand from the last question when you have answered that we need to maintain the similar amount of provision.

Sudipto Sil: No, it is actually enhancement of the PCR. Enhancement of provisioning coverage, which we have seen, total assets coverage ratio has also increased sequentially from 2.4 to 2.58.

Sandeep Jain: So, now there is some confusion. I am really sorry for this question. But see, generally, what used to happen is whenever we have provided for some assets, and that asset is getting write-off, there is no need to take on to the PL. That is a very logical way, right?

Sudipto Sil: No, that is not the way. As I told you, in RBI that is different, because here there are two differential calculations, no? So, that is not the case in case of IndAS. It is not the case in IndAS.

Sandeep Jain: So, say here is, I understand is 100, 200 crores of amount -

Sudipto Sil: The last quarter also we had written off something around 30 crores. That had to be also passed through the P&L. Even that was fully provided.

Sandeep Jain: No, I understood.

Sudipto Sil: We had done a technical write off of about 30 odd crores. I mean, between 20 and 30 crores. So, that was also passed through P&L. It is not a practice that we are adopting now.

Sandeep Jain: No, I understood that. No issues. I will take it offline. What I am trying to understand is suppose if there is some large account or some other account can come, and we have already done a quite amount of good PD and LGD on those accounts and all. And if that account needs to get write off, then you cannot take that provision from them. You have to pass it to whatever may be the amount.

Sudipto Sil: Whatever is the asset value, that has to be passed through a P&L account.

Sandeep Jain: You cannot touch the ECL rated provision?

Sudipto Sil: No, you cannot do it.

Sandeep Jain: You cannot do it?

Sudipto Sil: You cannot net it from the ECL. The very purpose of that is to reflect it to P&L. Otherwise, there is no space for it in the entire P&L. It will just vanish. It will just get removed without any, I mean, nobody will get to know also if it is not passed through the P&L.

Sandeep Jain: So, our ECL-based provision coverage will further increase, if that is the case?

Sudipto Sil: It has increased. It has increased. If you see the details that is there on the presentation, it has increased. In fact, every quarter, it has been increased. The PCR has been increasing every quarter. One year has not gone out of the system. It is there within the company as a provision.

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

Nischint Chawathe: Just trying to understand from a borrower point of view, these 9,000 odd crores borrowers who moved from fixed to floating, I mean, what is the proposition for them? They are probably paying 7% fixed, and they are now moving to 8% floating. So, is it something that you are giving this kind of a discount to them on the principal amount and which is where they are willing to convert?

Sudipto Sil: How there can be a discount on principal, Nischint?

Nischint Chawathe: But that's what I am trying to understand. What is it is for them for -

Sudipto Sil: The rate of interest has been a discount itself. Rate of interest, that is the reason why the modification loss is arising out of the first, in the first case.

Y. Viswanatha Gowd: Moreover, they will be for long term also.

Nischint Chawathe: So, these customers would earlier be paying, what, 9% fixed or something like that?

Sudipto Sil: No, not 9%, but around 8.5 or thereabouts.

Nischint Chawathe: And then that has probably now come down -

Sudipto Sil: Depending upon credit trading etc., and amount etc.

Nischint Chawathe: So, the 8.5% fixed, which probably came down to 7.5, so you had to do this adjustment.

Sudipto Sil: Correct. But now the 7.5% is on floating.

Nischint Chawathe: That you have again raised it back to whatever -

Sudipto Sil: Correct. The reason is that, today, we are in an increasing rate scenario. So, everybody would like to have a fixed rate of interest. But whenever the rate of interest reverse, cycle reverses maybe 1 year down the line, 1.5 years down the line, if the loans are still on fixed, there will be exits. Because at that point in time, nobody is going to pay a higher rate of interest at a steep difference to what market is offering. So, you have to keep the long-term interest in mind in terms of the entire life cycle of the loan.

Nischint Chawathe: Definitely. And excluding these two adjustments from the interest income line item, you said that your yields are going up by around 40 odd basis points. This is on a year-on-year basis, which is second quarter versus second quarter or first versus second?

Sudipto Sil: June to September.

Nischint Chawathe: That is on the quarter-on-quarter basis, you are saying that you are looking at 40 odd basis points.

Sudipto Sil: Yes.

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

Y. Viswanatha Gowd: I thank you all for your active participation. I think from our side, because always there will be good demand for housing, the demand is robust across all places, and all the regions have already charted out a very good strategy. I think Q3 going forward will have far, far, far better NIMs and also excellent performance across all the parameters. Thank you once again. Wish you all the best.

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