“LIC Housing Finance Limited

Q2 FY '25 Investor Conference Call”

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

Moderator: Ladies and gentlemen, good day, and welcome to the LIC Housing Finance Limited Q2 FY '25 Investor 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Praveen Agarwal: Thank you, Neha. Good day, everyone, and welcome to the Earnings Call of LIC Housing Finance. From the management team, we have Mr. Tribhuwan Adhikari, MD and CEO; and Mr. Sudipto Sil, CFO, to discuss the key highlights of the results.

I would request Mr. Adhikari to share his initial remarks, post which we'll open the floor for Q&A. Over to you, sir.

Tribhuwan Adhikari: Yes. Thank you, Praveen. Very good morning to all of you, and welcome to the post-earnings conference call of LIC Housing Finance Limited. As you all are aware, LIC Housing Finance Limited declared its Q2 FY '25 results yesterday.

Before I start the highlights of the Q2 results, I would just like to outline a few developments in the economy of the quarter. The interest rate reduction cycle has started in few major economies globally, however the Central Banks across the globe remain cautious and aiming for a "just right" approach, balancing inflation with growth risks. Domestically, the RBI is yet to join the rate reduction cycle, as it continued to keep the policy rates unchanged in its August and October meetings, but in the October meeting the stance was changed from “withdrawal of accommodation” to “neutral”. With the change in stance, it is expected that RBI may start rate cuts in the coming quarters, however the recent and upcoming inflation and growth numbers will have an impact on the RBI’s decision with respect to the same.

Moderator: Ladies and gentlemen, we have lost the management line connection. Please stay connected while we reconnect them. Ladies and gentlemen, we have management line back on the call.

Tribhuwan Adhikari: Sorry for the call drop. So as I was saying, coming to the real estate sector, in Q2, we have observed steady demand across major markets, coupled with increase in prices. As we head into the peak festive season, we are confident of high levels of transaction in the residential space.

With this overview, I'd like to share the key financial highlights of the quarter. The total revenue from operations was INR6,926 crores as against INR6,753 crores for the corresponding quarter of the previous year, up by 3%. Outstanding loan portfolio stood at INR294,588 crores as against INR277,987 crores as on 30th September '23, reflecting a growth of 6%, out of which individual home loan portfolio stood at INR250,879 crores as against INR234,509 crores, up by 7% and continues to be 85% of the total portfolio.

The total disbursement for the quarter was INR16,476 crores against INR14,665 crores in the same quarter last year, up by 12%. Part of these disbursements in the individual home loans, the disbursements were to the tune of INR13,051 crores as against INR12,516 crores, up 4% Y-o-Y. We have seen good growth in the northern and some states in the southern parts of the country.

Sequentially, the disbursements were up by 27% at against the Q1 number of INR12,915 crores with the home loan disbursements up by 19% from INR10,932 crores to INR13,051 crores. Disbursement in project loans were INR1,397 crores in the quarter as against INR433 crores for the same period last year, up by 223%. As you would note that this book was continuously de-growing over many quarters but has now started -- the trend has reversed. It is now about 3% of the overall portfolio. We continue to be cautious and selective in our approach in this segment.

Net interest income stood at INR1,974 crores as against INR2,107 crores for the same period in the previous year and INR1,989 crores for Q1 of FY '25, with a marginal decline of INR15 crores Q-on-Q. Net interest margins for Q2 FY '25 stood at 2.71% as against 3.04% for the Q2 of FY '24 and 2.76% for Q1 of FY '25. Sequentially as well as year-to-year, there has been a decline in the NIMs.

Profit before tax for the quarter was INR1,664.36 crores as against INR1,480.06 crores in Q2 of FY '24, a growth of 12%. As compared to Q1 FY '25, the PBT recorded an increase of 2.21% from INR1,628.43 crores to INR1,664.36 crores. This is largely on account of decrease in provisioning by INR66 crores sequentially. Profit after tax for the quarter stood at INR1,328.89 crores as against INR1,188.05 crores for the same period previous year, a growth of 12% and against INR1,300.21 crores, an increase of 2%.

In terms of asset quality, Stage 3 exposure at default as on September 30th, '24 stood at 3.06% as against 4.33% as on September 30th, 2023. Total provisions on 30th of September '24 stood at INR5,458 crores, reflecting a provision coverage of about 49% as against our provision coverage of 41% as on 30th of September '23.

A technical write-off of INR286 crores have been made in this quarter. All these loans were carrying a 100% provisions. Also, there was a recovery from write-off loans to the tune of INR49 crores. In the coming months and quarters, we expect this trend to continue. Credit cost for the quarter and half year have also come down due to better NPA management.

On the funding side, cost of funds, which stood at 7.73% as compared to 7.76% as on 30/9/'23 as against 7.76% as on 30th June '24, so there's a decline of 3 basis points sequentially on the entire borrowing of INR2.57 lakh crores. Incremental cost of funds stood at 7.71 for Q2 of FY '25 as against 7.73 for the corresponding period last year and 7.82 for Q1 of FY '25.

On the funding environment, we have witnessed a reduction in borrowing rates compared to Q1. The future trajectory will be largely driven by the RBI's commentary on inflation and the policy rate action. The past quarter was a period where we had focused on growth and also initiating some steps toward strengthening the margins.

Towards that end, apart from slowly rebuilding our wholesale book, we have also launched a new product in the affordable space with the complete focus on the self-employed category, where pricing is about 250 basis points higher than the standard home loans. With the PMI scheme also -- PMAY scheme also being announced, we expect good traction in both volumes and margins in the coming quarters.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: So broadly three broad questions. One, if you can help if I look at your yield for the half year -- first half of this year versus last year, the yield on your asset has gone down substantially almost like 27-odd basis points. In a market environment where I mean the competition has been increasing rates even on the pure home loan because the rates are going up.

And if I try to look at your asset mix change, that also is not substantial. I mean, just 1 percentage point move in the developer loan going lower, 1 percentage that also does not explain this kind of a move. So competitive environment also is not kind of that aggressive on the rate side, your asset mix largely stable, just 1 percentage by move here from housing to developers. And this yield is down 27 basis points so where this yield is going to sort of stabilize particularly when the rate cut cycle starts, I mean, next year? So that's question number one.

Second would be now on the PCR, if I look at Stage 1 and 2, your provision coverage is dramatically down on Stage 1 and 2, I'm talking year-on-year. So what is sort of they're changing in your ECL model that is leading you to reduce, particularly if I look at Stage 2, almost PCR is going down probably from 7 percentage last year to like 4%. So what is kind of driving this PCR reduction in Stage 2?

And lastly, the third question is on your disbursement in developer finance. So last year, of course, you have been very guarded and that is reflecting in how developer finance in your asset mix has come down. But now when I mean, there are some signals that property market probably would be kind of going to slow and all, but you have chosen to accelerate in the developer financing.

So what explains this strategy change? And if you can help us understand what kind of risk mitigation measure or selective filter you're applying when you are kind of accelerating now in this developer finance?

Tribhuwan Adhikari: Yes, Avinash, I'll take question number 3 first regarding your developer finance. Yes, we have been guarded where developer finance is concerned. This is the first time that after almost 6 quarters that we are showing growth in our developer finance book. Yes, 2, 3 things, risk mitigation measures you have said, we are still guarded. I use the word we are still guarded as far as developer finance is concerned. We are not going whole hub into it. What we have done is that we have identified select developers all over the country and especially from the big cities, which are -- which have been traditionally contributing to our developer book.

And all these -- while selecting them, what we've been looking at, of course, is the credibility and the sort of the image of the developer. And one major point we've seen is the external rating of all these developers, right? So at the moment, as per the directives of the Executive Committee, we are only looking at developers having a BBB or a higher rating. So we are talking to these developers, trying to build connect and disbursing to them only. So yes, developer finance, we are looking at it. We are not returning from the market as some companies have.

And now with the property markets looking up, the prices going up, we see an opportunity in this market. So our focus -- our guarded focus, if I may use the word in this developer finance will continue. We've done well in this quarter. We disbursed about INR1,500 crores as compared to INR500 crores in the same quarter of last year, so it is good. And we have a good pipeline, which has built up and we expect quarter 3 and quarter 4 also to be strong in this thing. As regard to yields, I would request Sudipto to take it.

Sudipto Sil: Yes. See, actually, if you -- I will rather take the second question, the question on the PCR first and then we'll come to the yields. See, as far as the PCR is concerned, as compared to last year, you would recollect that there was a good portion of loans, which were still in the OTR, onetime restructuring post the COVID, which was announced, and all those loans were placed in that Stage 2 even if they were performing loans. And that is the reason why there was a higher provisioning coverage ratio, which we have kept as a matter of precaution.

Though the loans were performing, we kept them in Stage 2, and we have provided the additional provisioning that was required. However, now that OTR matter has got completely done. So either the loans are performing, or they have moved to the Stage 3, whatever it is. So accordingly, now if you see sequentially between Q1 and Q2, I think the PCR has been by and large stable across almost all categories of -- all sub-categories of loans.

Then your query was regarding the yield. So actually, as we mentioned that probably this quarter, part of first quarter and second quarter, the focus was on getting back on the growth to build up the portfolio. We had last year, which was a year of underperformance, and we had lost a lot of portfolio. So this year, probably the focus was more on generating growth in the segment, especially in the home loan segment. And we have also started rebuilding the builder loan segment as you have also observed. However, going forward, your question about the impending rate cut as and when it happens, that also we, more or less, have a plan in place.

Of course, the timing and the magnitude of the rate cut we cannot predict, but if you see almost half of our liability side is already on the floating rate side. And there are also liabilities which run off every year, almost 20% of the fixed portion. So 60% is either fixed or floating in a sense that it will get repriced within a space of few quarters.

Apart from that, we are also looking at engaging into some kind of derivative contracts like simple OIS structures to ensure that by and large, the liabilities remain in some kind of an alignment with the asset side to the extent that is possible without actually having too much of risks on the balance sheet.

Moderator: The next question is from the line of Marukh Adajaniya from Nuvama Wealth.

Marukh Adajaniya: I have 2 questions. Firstly, that on many bank calls, basically, what we understand is that now they are lending at around 8.9%, 8.8% to their prime customers. And we also hear that PSU banks are lending at 8.5%, 8.6% to similar profile of customers. So where would you figure, like would you offer 8.5%, 8.6% to your very prime customers? Or where are you benchmarked in retail?

Tribhuwan Adhikari: Okay. Marukh, one question only?

Marukh Adajaniya: Yes. No, I have others as well, sir. So my other question is basically -- that's one. Second is that, see if repo rate is cut today, right, then what proportion of your book -- outstanding book, incremental, I know, but outstanding book would reprice at the end of the month or the beginning of the next month?

Because I know you would have some benchmark rates that will change with the repo, but what is the lead lag, right, because for banks, it's almost immediate. So I just wanted to understand that better also. And sir if you comment on growth, when will it -- when do you think -- based on your expectations of disbursals over the next few quarters, when do you think we can see a double-digit growth? If not an overall then at least in retail.

Tribhuwan Adhikari: Okay. So Marukh, I'll take your first question and your last question, repo rate, I'll ask -- the impact of repo rate cut, I'll ask Sudipto to take it. Well, as regards to the first question, you alluded to the fact that, yes, many of the PSU banks have been increasing their rates.

And well, to the prime customers, some of them are lending at 8.5%, 8.6%. Yes, this is basically the segment which we are in. Traditionally, we have also been focused on the prime or the super prime category of borrowers and quite naturally in doing that, we have been competing basically with banks, right?

So yes, our lending rates are in the same band of 8.5%, 8.6% or rather I may use the word, were in the band of 8.5%, 8.6%. Recently, about a month back, we also have revised our rates -- our incremental rates up by 15, 20 basis points. So we realize, we understand very well that yes, growing the book is important, but we also need to look at the margins we are getting through this growth book -- the growth in the book that we are looking at. We're very well aware of that situation and we have taken steps to ensure that the margin part also plays a major role in deciding our strategies.

As I said, we have increased our incremental rates of lending by about 15 to 20 basis points about a month back. On the other side, our IHL book, which is basically this prime and super-prime customer base, giving us low margin and low yields, constitute 85% of book -- of our book. We are consciously looking to diversify to some extent or to whatever extent possible and go into the NHI and the NHC categories, which are slightly more margin aggressive, that we are doing, and we are seeing traction in that.

And the other part of it where -- is the affordable segment where -- we were there in the affordable segment, but we were catering to the salaried affordable segment rather. So we were not there in the so-called traditional affordable segment of self-employed, people with low/no CIBIL, people with undocumented income. So this -- the conscious call about 20 days back, we have launched a product, which is exclusively aimed at this self-employed affordable segment, people with low CIBIL, no documents or undocuments. And the initial response, we've rolled it out. The initial response from our intermediaries and DSAs is very good. The response from our people in the area offices or branch offices, as you may call it, is very good.

But yes, it is gaining traction, but the real impact of this would be felt probably a month or so down the line. We are pretty optimistic about this. This is where we need to be, and we are aggressive on this.

And looking forward, I feel this is one product or one segment, which has the potential over the next 2 to 3 years to contribute to at least 15%, 20% of our book. So this is what we are doing as far as the margins are concerned. So the clear guidance is, yes, growing the book is important, but growing the book with better margins is more important.

Now coming to -- what was the third question, Marukh, I just forgot.

Sudipto Sil: Repo impact.

Tribhuwan Adhikari: Yes, the repo impact was -- Sudipto, can you take the repo impact?

Sudipto Sil: See, the repo impact as far as our loan policy is concerned, the reset is on the first of the quarter. For example, as you said, if there is a repo cut today, then whatever changes will happen, that will get translated to the customers' loan accounts from first of January. And as far as the borrowing is concerned, it depends -- most of the borrowing is either linked to treasury bill or to repo and most of our borrowings on the banking side, that is, are almost immediate or month end.

Marukh Adajania: Okay. But so if the rates are cut today, the repricing happens in January...

Sudipto Sil: Yes, for the Assets-- certainly, January.

Marukh Adajania: Yes. Okay. And liabilities is you are saying immediate, banking liabilities.

Sudipto Sil: Banking liabilities are immediate for the repo accounts and for the T-bill accounts month end.

Moderator: The next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Congrats on good set of numbers. Just firstly, with the strong recoveries we got this quarter, what was the interest income impact of that?

Sudipto Sil: Yes. See, as far as the interest income impact is there, it is around INR86 crores. So I think last quarter, if you recollect, it was around INR90 crores. So by and large, I would say it's around the same level.

Piran Engineer: This INR86 crores is interest income on...

Sudipto Sil: Interest income on NPA accounts.

Piran Engineer: Yes, I know, I meant the write-back from recoveries of NPLs.

Sudipto Sil: So that is then write-off. Once the write-off happens, it gets added into the other income piece. So if you see our published numbers this time, you'll find in the other income, it is reporting a number of INR56 crores, which was around INR7 crores or something in the previous quarter. So that actually accounts for amounts, which we have received from accounts which were written off earlier, around INR22 crores from some project loan account, which is part payment and the balance part is yet to be received and some INR27 crores or INR26 crores from the pool of retail accounts, all of these which are written off, technical write-offs.

Piran Engineer: Okay. Understood. And secondly, any one-offs in the opex number? It was quite high this quarter.

Sudipto Sil: Yes. Opex number, basically, there were some -- one was pertaining to the distribution costs, which has increased and that has happened because sequentially, if you see there has been an improvement in the disbursement by about 27%. So one is on account of that.

Piran Engineer: Okay. So there's no real one-off. It's just a consequence of stronger disbursement growth.

Sudipto Sil: Yes. In a way you can say so.

Piran Engineer: Okay. Understood. And sir, last also I think...

Sudipto Sil: Wage revision also -- wage revision, a little bit of impact has been taken which has been taken all the quarters. Sometimes one of the quarter is slightly more, but this is something which has been there since 2023 FY, every quarter.

Piran Engineer: Sorry, what is this thing, wage hike?

Sudipto Sil: This is for the wage revision. Wage revision sometimes what happens is that we actually make some provision based upon some estimate number of employees and whenever there is an increase in the number of employees, and there is an increase in the estimates pertaining to gratuity and other linked outflows with the wage revision, there is an increase. So that is about say, INR7 crores or INR8 crores additional this quarter.

Piran Engineer: Okay. I understood. And just lastly, one clarification on the previous question. You mentioned that we've increased our…

Sudipto Sil: Your voice is breaking. Can you please come closer to the mic?

Piran Engineer: Am I audible now?

Sudipto Sil: Yes. Audible now.

Piran Engineer: So just on the previous question where we mentioned that last month, we've increased prime rates by 15, 20 bps. This will be only on incremental disbursements, right?

Tribhuwan Adhikari: Yes.

Sudipto Sil: Yes. I will explain how we have done it. Actually, there is a slight change in the pricing structure. Earlier, as you would know, the pricing was linked to the CIBIL score, but it was a band of 50 points. So a person having a CIBIL score of 701 and person having a CIBIL score of 750 used to get the same pricing.

Now what we have done is that we have created some subcategory in between that. So 700 to 725 will be one category, which will be priced about 10 basis points higher than the earlier category. So this is the way we have actually segregated and made it a slightly more differentiated as compared to a more homogenous pattern, which we were following earlier.

Piran Engineer: But there's no PLR hike, right?

Sudipto Sil: No PLR hike.

Moderator: The next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: So the first is when we look at the decline in GS3 as well as GS2, is that the impact of the recoveries, no doubt you have indicated recovery from return of account. But broadly, I want to get the sense in terms of the decline in the GS3 and GS2 percentage. There is some amount of write-off of INR286-odd crores, but still the overall quantum seems to like almost INR500 crores in GS3. And even GS2, there is a decline out there of almost like say INR250-odd crores. So what's driving that?

Moderator: Sorry to interrupt you sir. We have lost the management line connection. Please stay connected while we reconnect them. Ladies and gentlemen, thank you for patiently holding. We have the management line back on the call.

Kunal Shah: Yes. So were you able to hear the question?

Tribhuwan Adhikari: Yes, yes, Kunal. We got your question. One was about the Stage 3 and the drop in Stage 3 and also Stage 2. Regards Stage 3, yes, there has been an improvement or reduction of approximately INR507 crores. Of this, INR287 crores is because of the write-off because we've written off about INR287 crores in the quarter. But apart from that also, there is some reduction, and that is because of the recovery efforts we've taken. No lumpy resolutions in the quarter. So it's all been the regular stuff...

Kunal Shah: Mostly on -- so I think last time you indicated 3 large accounts of INR250 crore, INR375 crores and INR400-odd crores. So none of them have got resolved in Q2.

Tribhuwan Adhikari: No. Kunal, as you would know, these big accounts, they do take time, right? There are promises and promises are broken and then again, renegotiation start. So yes, there are 4, 5 accounts -- big accounts which we are in various stages of discussion. One big account, which had alluded to last time, INR400-odd crores. This is very close to, I would say, settlement. It has gone to the ARC.

We have received a firm bid. We have already gone in for the Swiss challenge. So probably in the next 15, 20 days, the issue would be finalized and the firm bid ultimately, if nobody challenges, it should go through. So that is one development we are expecting in this quarter, quarter 3.

And there are other 4 or 5 accounts where we are in various stages of discussion. And with these big accounts, you never know, something sometimes suddenly clicks and more often than not, it doesn't. So in various stages of discussion and discussions are moving forward. I think there is progress being made so the results may not be seen.

Expecting definitely in Q3, one big account to be sort of addressed and then going forward, probably a few more. Overall -- but overall, we are not totally dependent on these big accounts. As and when they come, we would take them to be a bonus, we are more focused on the bigger pool of Stage 3, especially in the retail part of it and trying to bring down that pool quarter-on-quarter.

Kunal Shah: Sure. So current quarter's reduction is largely led by the retail or the smaller accounts?

Tribhuwan Adhikari: Yes. There would be a few developer loans also, but small ones, nothing big, nothing big.

Kunal Shah: Okay. Got it. And secondly, last time, you indicated that collection from NPA was relatively lower at INR90-odd crores, and we expect that it should normalize to INR130 crores to INR150-odd crores in coming quarters. But again, this quarter, it seems to be like INR86-odd crores. And you indicated like margins should bottom out, but we are still seeing the decline because we are chasing growth as well. So where do you finally expect margins to settle now?

Tribhuwan Adhikari: Well, margins, we had given you a guidance in the beginning of the year, we had given the market a guidance of 2.7% to 2.9%. Right now, we are at 2.73%. Yes, agreed, slightly elevated cost of borrowing and also slightly depressed margins in the sort of lending have contributed to that. But I think this is -- we have hit the bottom. We have hit the bottom, we're pretty sure of that. And in the coming quarter 3 and quarter 4, I expect a 5 to 10 basis point improvement.

Sudipto Sil: Yes. Actually, just to add to that, Kunal, some 2, 3 different like, a little bit of improvement on the wholesale book. If you've seen that for the first time in almost 7 or 8 quarters, we have seen a sequential growth in the wholesale book. So that actually is a yield accretive portion of the book.

Secondly, the new product that we have launched, which we have seen some initial, I would say, early green shoots there. That also is a product which is around 250 basis points higher than the general home loan that we are doing. A little bit of push will also come from the tweaking of the rate structure that we have just discussed about the change in the CIBIL score-driven rate structure. These are the 3 things which are there.

The fourth thing is that whatever benefit you are seeing on the cost of funds side, we have seen a reduction of 3 basis points, the number might be very small, but 3 basis points on a pool of INR2.5 lakh crores that has come actually towards the end of September. So that benefit -- some part of that benefit will also trickle down into the coming quarters.

If you see the incremental cost of fund also, as compared to Q1, there is a drop of about 11 basis points in second quarter. We expect that assuming the rate of the interest rate scenario remains by and large at this kind of a situation though it has been a bit volatile in the last 2 to 3 weeks, we expect, by and large, that those benefits also to percolate down.

Kunal Shah: Got it. And yields on developer -- incremental developer book would be how much?

Sudipto Sil: Yield on the entire wholesale book, I would say, not the developer per se because we are also doing a fair bit of lending on the NHC, which is loans to other housing finance companies. So blended, that will be an annualized rate of close to 10.5%, 10% on the card, and if you annualize, it will be closer to 10.5%.

Moderator: The next question is from the line of Ankit Minocha from Adezi Ventures Family Office.

Ankit Minocha: My first question is an extension of the repo rate cut question from one of the previous participants. So I mean, considering that you mentioned that the liability pricing transfer is immediate at the end of the current month, whilst the asset transfer happens in the first -- on the first of next quarter, then does that mean that we would have tailwinds for margins for this period of a rate cut? Or would it be headwinds for margins for the period of the repo rate cut?

Sudipto Sil: I would say it is something which is balanced out in terms of timing. We will get some benefit on the liability side, but that will be on about 50% of the book. Whereas on the asset side, it is likely that the pass on will be towards almost 90%, 95% of the book. So timing wise, there will be a little bit of cushion that we will get. More importantly is that even before the rate cut actually happens, you will see a little bit of softening, which will happen on the bond yields, which we have seen in the last maybe 1 month or so. So that also keeps on adding to the cushion.

Ankit Minocha: Right. And this timing that you speak about, say, if I look at from a more immediate timing perspective, say, 1 or 2 -- 1 quarter only, for example, then in that case, in that one particular quarter when the rate cut happens, then you would see some sort of a margin expansion and then that would kind of peter out later on, is that correct understanding?

Sudipto Sil: I will say it will remain by and large stable. I will not look at -- I mean depending upon the -- I mean it's not a very simple Excel sheet kind of an extension. Timing-wise, what you're saying is absolutely right. But the magnitude of it will depend upon the external rate X of the repo. Repo is only a policy announcement. The rate moves before and after the repo in a different fashion altogether.

Ankit Minocha: Okay, sure. And my second question is with regard to the fact that I believe 54% of your liabilities is NCDs. So in next year, even if there was a moderate repo rate cut environment, does this portion -- I believe this portion would not be repriced, right? Or is my understanding incorrect?

Sudipto Sil: No, I will say that about 20% of my average duration of NCD is about 5 years. So 20% of it any which ways will get redeemed over any period of 12 months, number one. Number two is that if you just look at the NCD incremental borrowing in the last 3 months, say, from the period of May onwards still about September end, almost all the tenures have -- the pricing has moved down, the yields have moved down by about between 15 and 20 basis points, even without a repo cut. So the same tenure, which we were raising up in the range of around 7.70%, we have very recently raised at 7.48%. Similarly, across the other tenures, 3 years and 5 years also, we have witnessed a similar kind of a reduction.

Ankit Minocha: Understood. So something like say if there is a 2- or 3-year environment -- rate cut environment, also in that...

Sudipto Sil: I will just put it this way. See, we have not seen any repo cut, but without the repo cut also the incremental costs have come down by 11 basis points in a period of 3 months. So that is precisely what I'm trying to say is that before and after the repo also, the markets move in a completely different manner, which may not be directly linked to repo.

Ankit Minocha: And that would affect the pricing of your NCD book over the long term also? I mean 2 or 3 years later, then the NCD pricing should kind of be better for you in that way.

Sudipto Sil: Yes.

Ankit Minocha: Understood. And finally, my last question is about the developer finance vertical. So I mean, what is the current portion of the book for developer finance, what do you anticipate this might be for next year? And what is the anticipated NIM profile for this business?

Tribhuwan Adhikari: Developer finance, right now it constitutes 3% of my book, right? So as I said -- as I answered to one of the questions, we are guardedly optimistic about that. We are going about it in a guarded manner. We're not going whole hug into it where the legacy has not been very good. So we have selected a few quality developers, and we are working with them or engaging with them. As I said, we have gone in for external ratings. The developer rated BBB and above is what we are looking to fund. So that is the way it is going to be.

And I feel in the way -- of course, we've done about INR1,500 crores in this quarter, which was INR500 crores in the same quarter last year. So there is a traction. So Mr. Sudipto pointed out, almost after 6 or 7 quarters, we've seen a growth in the developer book. So okay, we are guardedly optimistic about this quarter. We are going to grow the developer book. We are not shying away from that. So probably by the end of the year, I'm looking something about, say, 4% of my book, up from 3% right now. And in the coming year, I would say, another 2%, so somewhere around about 5% to 6% of my book should be the developer book.

Ankit Minocha: And the NIM profile versus the legacy book?

Sudipto Sil: As far as the builders is concerned, generally, the kind of builders that we are targeting now is, I would say, much better in terms of external credit rating. So probably here, we'll be able to price it somewhere between 11% and 12% for a construction finance which will be around 350 basis points, so for every 1 single percentage point, there is around 4 basis point margin improvement.

Moderator: The next question is from the line of Mohit Jain from Tara Capital Partners.

Mohit Jain: Sir, I have 2 questions. One is on the disbursement side. In the previous quarter, we have said that we are targeting for INR75,000 crores of disbursement. In the first half year, we have done almost INR30,000 crores of disbursement. So it seems the task for the remaining half, H2, is hugely predictive. Do we stick to that timeline? And in that context, how has been the festive season so far in terms of disbursement?

And the related question will be in terms of the AUM growth, we -- on the media today also you said 12% to 15% is the growth we are looking for. So far, the AUM growth has not been -- has been slightly softer. So how do we look at it going forward? Do we stick with the guidance? Or do we look into this?

Tribhuwan Adhikari: Well, if you -- I think you're referring to the media thing. In the beginning of the year, we have said double-digit growth. That is what we had guided for, right? And the specific question with Latha in CNBC asked me that, did you factor in PMAY into it? And I had said that, no, not exactly PMAY. But yes, affordable -- we have been in the affordable segment. We have been doing affordable -- we have been giving affordable range. So not fully factored in. But yes, some part of that INR75,000 crores definitely was affordable also when we are question for that thing.

So then I had said that, yes, about from double digit initially, I'd say it would be the lower double digits. Then I said, okay, if the PMAY comes in and we get into PMAY, which we intend to, it would be between 12% and 15%. That is what I said, and we stand by that. Right now, we are at 6%, up from 4.5% in the last quarter. So marginal 1.5% increase.

But traditionally -- but base is bigger. You must realize one thing LIC HFL is almost INR290,000 crores of base. So expecting us to deliver the same run rate as some of my smaller peers, I think would not be justified. So that is why slightly lower guidance as compared to what the industry is expecting, but, yes, 6% right now.

I'll stick by my guidance that double-digit growth is what we're looking till it Q3 and Q4 upcoming. Our Q3 and Q4 traditionally have been strong quarters for us and for the industry also. And right now, as you said, the festive season is going on. Very early to assess because Diwali, Dhanteras -- today is Dhanteras and then Diwali is day after.

So right now, it is okay. I think we are in -- the growths are similar to what we experience during the festive season. And this festive season carries on till December, various festive offers and all, etcetera, are on until December. So I expect this festive season to contribute to our already existing growth, 27% sequentially. So we expect this to continue.

Mohit Jain: So we stick to the disbursement and the year-end guidance?

Tribhuwan Adhikari: Yes.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Sir, first thing, a couple of times in the call, we shared that while we are focused on growth, there are two things I wanted to bring to your attention. One is where you shared that while growing the book is important, growing the book with better margin is also important. And at the same time, somewhere we also acknowledged the fact that our large balance sheet compared to lot of our peers, and which is where we can't be growing as fast as our peers.

So what I'm trying to understand is today, if you look at our margins, they are already at decadal heights, despite an inferior product mix, your loan mix has moved increasingly in favour of individual home loans. Then, I mean, doesn't it merit that -- we focus more on bringing the loan growth, even if it means reducing the margins a little bit because we are already at a higher level than where we used to operate as a business model.

And in addition, you have other levers, like the tweaking that you have done on your rate based on CIBIL scores, you're also bringing in the self-employed customer segment -- affordable segment now, self-employed affordable segment. So that is one question that I had.

The second question is on the affordable segment itself. While we used to do salaried, affordable loans earlier, fact that we are now venturing into self-employed affordable segment, which in itself is, I would say, a very vulnerable and riskier customer segment. And if you look at, I mean, the smaller affordable HFCs that they have, it's a very, very, I mean, I would say, intensive -- operationally intensive business.

So unless we build capabilities there, I mean, I'm sure you're not setting up a whole host of branches in Tier 2, Tier 3 cities. So that is the other thing that I wanted to understand that what was the rationale to venture into a self-employed affordable segment in addition to the fact that it gets you higher yields, 250 basis points higher yields.

And the last one is actually a clarification. When we say that our back book yields get repriced on the first of every quarter -- first day of every quarter, am I right in kind of saying that they are not necessarily -- your loans that you've given to your customers are not necessarily linked to your repo rates, but instead because banks have reported home loans and because of competitive pressures, you actually reduce it to the same extent as the repo rate cut.

Tribhuwan Adhikari: Yes, Abhijit, okay. Point taken -- yes, your first point is very well taken. Yes, this is a call we need to take regarding growth versus margins. You were alluding to the fact that I think we should be growing our loan book and probably not looking at margins. But then again, I think this is the Hobson's choice we have.

We do need to grow our books, but at the same time, we need to look at margins right now because all along, 35 years, we've been looking at growth and not completely focused on margins. We have been competing in the prime and the super-prime segment of borrowers.

Our competition is mainly with banks who have an advantage of low cost of funds. So we have been fighting this price war or the cost of lending war all these years. And yes, we have grown a big book. We have got a book of INR294,000 crores. But then if you look at my margins, my margins are only at what 2.73% -- or NIMs are at 2.73%.

So it has to be a balanced approach, I believe. We cannot junk one for the other. I cannot be saying that I'll be looking only at margins and completely forget about growth and at the same time, I cannot be saying that I look only at growth and not good at margins. It has to be a balanced approach, and that is what we are aiming for. By looking for growth, we are also trying to diversify our book slightly, I would not say by a big margin, but slightly towards the higher-margin segments like NHI, NHC and the affordable also.

Yes, regarding the affordable, yes, I do agree that the self-employed sector which we have ventured into and for us, it is risky. Yes, it is risky, definitely risky. And for us, since we are going there for the first time, we have not done it in the past, it is all the more risky. The pricing, we have priced the risk, we have priced the risk, and I fully agree that, yes, we need to build the infrastructure and the capabilities. As regards to offices, we have offices in Tier 2 and Tier 3 towns.

So right now, we would be treading cautiously into this segment because we do realize that there is potential in this segment, there are margins in this segment. But we would be ensuring that whatever due diligence or whatever extra due diligence and extra efforts are required in doing this business and especially monitoring this business, these are done.

So do not expect very high growth in this affordable self-employed segment. But definitely, in the next 2 to 3 years, we would like to ensure that this product or similar type of products, they form a good portion of our sales. Does that answer your question Abhijit?

Sudipto Sil: I think one query is left regarding the fact around...

Abhijit Tibrewal: Yes, yes. You're right, you're right.

Sudipto Sil: You had a query, Abhijit? What was the question?

Abhijit Tibrewal: The question is that when you said that, I mean, the back book gets repriced on the...

Sudipto Sil: Actually, if you look at it, the contractual agreement is that there will be a review. Whether there will be a repricing or not, that is subject to external situations. So the review parameter is once every beginning of the quarter, so 1st January 1st April 1st July and 1st October. What decision we take few weeks prior to that date is depending upon so many factors like one of them will be a reduction in the cost of fund, competitive intensity will be another. Our loans are linked to our internal PLR, they are not linked to any repo or external benchmark.

Moderator: The next question is from the line of Gaurav Kochar from Mirae Assets.

Gaurav Kochar: First of all, congrats on the quarter. I think disbursement growth has picked up in this quarter, and we hope this trend sort of continues. Just two questions from my side. Firstly, I think an extension of what Abhijit already asked regarding the book that is the back book that repricing will happen every quarter.

So is the understanding correct that even if, let's say, the repo rate cut happens, 25 bps, maybe in the fourth quarter of this year, not necessary that on 1st of April, which is the beginning of the quarter, you will have a similar sort of RPLR cut? And that RPLR cut would be largely linked to your cost of funds sort of movement? And if your cost of fund repricing is only by a few basis points, then that would be largely the reduction in PLR. Is that understanding correct?

Sudipto Sil: Yes, I think that understanding is absolutely correct. Our loans are not linked to any external benchmark, but we understand if there is a repo cut, there will be improvement in the cost of funds. To that extent, there could be a situation open for costing on a reduction to the customers. But that is not a one-to-one kind of a correlation.

Gaurav Kochar: Got it, sure. Maybe over a period of time, that entire 25 bps pass on as you get the benefit on cost, so that lead-lag impact would not be very material?

Sudipto Sil: That is one thing. But of course, I mean, to be very realistic, you also need to keep in mind what is the competitive situation. So probably, it is possible that the rate action might happen on the incremental side rather than on the back book, that is also possible. But these are possibilities which will explored only when the external situation becomes clear.

Gaurav Kochar: Got it. Perfect. That's one. Secondly, let's say, without rate cut, looking at today the yields on the portfolio, and the efforts that you're talking about to increase the yield, be it the affordable side, a little more self-employed and the little tweaks you've done on the credit score, dividing the C700 to 750 into two small buckets. So all of this effort directionally, let's say, assume there is no repo rate cut for next 2 quarters, can we expect the yields to continue to improve from here?

And given that cost of funds -- the incremental cost of funds have started to moderate a bit, maybe the cost of funds remain stable over the next couple of years, the amount of improvement in yield should translate into NIM sort of improvement in next 2 quarters. Is that a fair sort of an outcome to expect?

Sudipto Sil: Yes, I think that's a fairly reasonable expectation. There are three things which we have done. One thing, as you have identified, it is kind of tweaking the pricing structure. So it is not only from 700 to 750 but also from 750 to 800. So there are four subcategories with some 10, 15 basis points differential. So that will always give some kind of -- though the number might be very small, but that will be a positive accretion.

Number two, improvement in the wholesale book in terms of its overall volume, certainly, that will be an improvement. And the overall improvement in collection efficiency and collection efforts, that will also help. And the fourth thing about the new product launch that we have discussed, that, of course, is in very initial stage. But as and when it picks up, that will also be a margin-accretive exercise.

Gaurav Kochar: Got it. And just lastly, on asset quality. You've spoken about small ticket resolutions that happened in this quarter. The NPA is down to 3.1%. And incrementally, if you are seeing another wholesale account of INR400-odd crores, I think, sir, you alluded to, that may get resolved in this quarter or maybe if not this quarter in next quarter. So near term, let's say, whatever recovery is from NPL you get, this quarter, you indicated it's slightly lower than last quarter -- I think similar to last quarter, INR90-odd crores and INR86 crores. So going forward in the NII line, can we expect that number -- I think last quarter, you said that normalized run rate was INR140 crores, INR150 crores and that dropped down to INR90 crores and it's at a similar band in this quarter. Can we expect in second half that number to move up and that also adjusted for that the margin should go up?

Sudipto Sil: Yes, that is a one-off as it is, I mean, because in some quarters, it might come, some quarters, it might not come. We are putting in efforts to also realize interest along with NPL accounts. But obviously, it's a difficult ask, but we are on the job. And as and when such resolutions actually happen, that will certainly add to the margins.

Gaurav Kochar: Sure. And what is the total write-off pool of non-corporate or non-project loans? What is that write-off pool where you're recovering steadily from? What would be the total quantum of that write-off pool in the retail book?

Sudipto Sil: See, total written off on the retail side is about INR2,300 crores. This is a cumulative figure for the last 20 years. And on the project side, it is about INR1,900 crores. So total around INR4,200 crores is the amount which is written off on the book. These are all technical write offs over a period of last 20 years.

Gaurav Kochar: Okay. So these are essentially the ones that are left, which have not yet normalized or recovered?

Sudipto Sil: No, these are the write-off amount, out of which we have also recovered about INR300 crores already.

Gaurav Kochar: Okay, put together, INR300 crores you're saying.

Sudipto Sil: Cumulative.

Moderator: The next question is from the line of Mr. Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: You mentioned that incremental cost of funds is around 7.71%. What is the incremental lending rate?

Sudipto Sil: Incremental lending rate…

Moderator: Ladies and gentlemen, we have lost the management line connection. Please stay connected while we reconnect them. Ladies and gentlemen, thank you for patiently holding. We have the management line back on the call.

Tribhuwan Adhikari: Yes. Nischint, are you there?

Nischint Chawathe: Yes, yes.

Tribhuwan Adhikari: Yes, yes, go ahead. Please go ahead.

Nischint Chawathe: So incremental lending rate is how much?

Sudipto Sil: Around 9.4% annualized.

Nischint Chawathe: 9.4%, fair. And I think on the segment and NPS, I'm not sure if you gave the numbers, what is the individual retail GNPA number, the ratio?

Sudipto Sil: Okay. I'll give you all the numbers. You can just note it down. All of the categories I'll give you. On the individual GNPA Stage 3, we'll call it Stage 3, it is 1.26%, that is the IHL, individual home loans.

Nischint Chawathe: Against 1.38% last quarter, right?

Sudipto Sil: 1.38% was the last quarter number. In terms of the project, it is 30.13% as against 33%. And the last piece is NHI, the non-housing individual, which was 5.39% in the previous quarter, now it is 5.03%.

Moderator: The next question is from the line of Vikram Subramanian from Marshall Wace.

Vikram Subramanian: Hello, am I audible?

Tribhuwan Adhikari: Yes, Vikram, you are audible.

Vikram Subramanian: I just wanted to get some clarity on some operational aspects of our core home loan products. Basically, in the prime home loan category, if a customer wants to take their home loan through a different lender through balance transfer maybe to one other bank, what are the practical frictional costs that the customer faces? Is there any cost that we charge them? What are the various costs that we can charge them and which ones we can practically impose?

Tribhuwan Adhikari: Well, Vikram, well very -- in fact, beginning of this year only RBI said that you cannot penalize the customer for anything, right? Earlier, we did have something called the prepayment charges, but now that has gone. So as on date, a customer on transferring his loan account from one institution to the other, or at least HFL to anybody else, there are no costs involved.

Sudipto Sil: Only you can say in one way that there is a cost on the other side in case that other bank charges a processing fee, that is the first. And mortgage that, that is the memorandum of -- I mean, that mortgage creation, that document that is about 0.5% of the outstanding loan, depends upon state to state. So that is a cost of switch. So every time a person creates a new mortgage, that document has to be executed.

Vikram Subramanian: Got it. But both of these costs that you mentioned are on the other side, are not on our side. Is this the right understanding?

Sudipto Sil: No.

Tribhuwan Adhikari: No costs on our side.

Sudipto Sil: Prepayment penalties cannot be charged. Prepayment penalties cannot be charged. As per the regulatory mandate, it cannot be charged for individual home loans. For commercial, like, if you have given a non-housing commercial loan or a builder loan, then there are prepayment penalties which can be taken. But for individual home loans, it cannot be.

Moderator: The next question is from the line of Shubranshu Mishra from PhillipCapital.

Shubranshu Mishra: Just quickly on the project finance portfolio. In the -- so 3 questions within the project finance portfolio. First one is in the outstanding portfolio that we have, what are the total number of accounts that we have? And what would be the largest accounts there? Second is in the Stage 3 numbers, what is the proportion or the number of accounts from project finance and what is the value of that? And the disbursement that we have done in project finance this quarter, how many of those accounts are refinanced? Or are these absolutely fresh projects that we have lent to?

Tribhuwan Adhikari: Okay. So Shubranshu, first was on how many loan accounts in our project finance, we have approximately about 200. 200 loan accounts in our project finance book as of now, right? So what was the second question?

Shubranshu Mishra: What is the largest account among them, sir?

Tribhuwan Adhikari: About INR500 crores, plus/minus INR25 crores -- or rather plus INR25 crores, INR500 crores, INR550 crores.

Shubranshu Mishra: Right. And in Stage 3, what is the number of project finance account? And what is the value?

Tribhuwan Adhikari: Stage 3 project finance numbers, yes, just a minute.

Sudipto Sil: Do you want the Stage 3?

Tribhuwan Adhikari: Stage 3 project finance.

Sudipto Sil: Okay. I think we shared the number just a few minutes back, including NHC and project put together, it is about 30% is the Stage 3.

Shubranshu Mishra: Number of accounts, if you can get number of accounts.

Sudipto Sil: Numbers will be around say, 35 to 40 will be approximately in Stage 3.

Shubranshu Mishra: Okay. And the disbursement that we have done in project finance this quarter, what proportion is refinanced and what is the proportion that is going to fresh loans, I mean fresh projects?

Sudipto Sil: All those, I think entirely is fresh.

Tribhuwan Adhikari: Entirely is fresh. There is no...

Sudipto Sil: You are talking about takeovers. Takeovers are not there.

Shubranshu Mishra: Yes, yes. So it is absolutely fresh projects, fresh launches?

Sudipto Sil: Yes.

Shubranshu Mishra: Got it. And sir, our entire project finance loans are single lien or are there any accounts which are pari-passu?

Sudipto Sil: No, they are all -- they're fully charged to us. There is no pari-passu.

Shubranshu Mishra: They are single lien, right, even in the Stage 3?

Sudipto Sil: Even in the Stage 3 also. Almost entirely, we are sole lenders. See, actually, in the project finance, we are almost in all the cases, maybe barring 1 or 2 cases, we are the sole lenders. So we have exclusive charge and security of the title.

Shubranshu Mishra: Right. Just counterintuitively, sir, why is it taking us longer in that case, if we have got single lien to resolve these accounts in that case?

Sudipto Sil: It is not because of single lien or pari-passu. The issue is because in a situation where the project is semi-complete or half complete or in some stage of, I would say, progress, it depends upon the 2, 3 different things.

One thing is that if it is through the core group, IBC take its time. So you really do not have any strict control on the timelines or an IBC. If you go -- because the homebuyers also sometimes create -- I mean, interest is created, so they also are party to this entire legal matter. In case you are looking for a settlement with the borrower or on auction, these are all processes which take their own time for better realization.

Shubranshu Mishra: Understood. This was very helpful, sir, and best of luck for ensuing quarters. And Happy Diwali.

Tribhuwan Adhikari: Thank you, Shubranshu. Happy Diwali to you.

Moderator: Ladies and gentlemen, we'll take this as the last question. I would now like to hand the conference over to the management for closing comments.

Tribhuwan Adhikari: Thank you. As we've spoken and answered the queries, the second quarter was a quarter where we had focused on consolidating on the key operating metrics, especially on the growth front. With the festive season amongst us and Q3 and Q4 traditionally strong quarters in front of us, we are confident it's a very good Q3 and Q4 to follow. I extend heartiest festive greetings to each one of you, and thank you for your continued support.

Sudipto Sil: Thank you.

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