Reliance Home Finance Limited Q4 FY18
Earnings Conference Call

April 25, 2018

SPEAKERS: Management of Reliance Home Finance Limited

Moderator: Good day ladies and gentlemen and welcome to the Reliance Home Finance Limited Q4 FY2018 Earnings Conference Call hosted by Reliance Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Asutosh Kumar Mishra from Reliance Securities. Thank you and over to you Mr. Mishra!

Asutosh Mishra: Good afternoon everyone and welcome to the Reliance Home Finance 4Q FY2018 Earnings Conference Call. Today, we have with us Mr. Ravindra Sudhalkar, ED & CEO Reliance Home Finance along with the entire senior management team to discuss the 4Q FY2018 Earnings and the strategy going forward, so over to you Sir!

Ravindra Sudhalkar: Good evening to all. Welcome to the financial year 2018 earnings call! FY2018 was a great year for Reliance Home Finance. The Company was successfully listed on the NSE and the BSE. The existing shareholders of Reliance Capital Limited were given one free share of the Company for every share of Reliance Capital held by them. We are delighted to announce that Mr. Jai Anmol Ambani has been inducted on the Board of Reliance Home Finance Limited.

I am very happy to report that the Company continued on the path of profitable growth and is well capitalised to benefit from macro tailwinds, with robust risk management framework. We crossed a mark of Rs.16,000 Crores on the AUM, which makes us count amongst the medium to large size housing finance companies. We have taken various measures to improve our efficiencies in all respects.

Employee productivity and opex efficiencies has started improving even as we are on the track to increase our book size at a much higher pace than our peers. The mortgage penetration levels in India has increased to more than 9.5% as on March 31, 2018 as against 8% as on March 31, 2014, but it still continues to be lower than the developed countries. The low penetration indicates significant potential for further growth. Housing finance companies have been able to grow at a faster pace owing to the focus on niche segments such as the self-employed and the affordable housing segments, which have been largely served by the HFCs and have a higher growth potential.

The government provided for the impetus to the growth by permitting prospective homebuyers to utilise as much as 90% of their accumulated EPFO corpus for purchase or construction of a home. Additionally, the remainder corpus and monthly contributions can now be used to services home loan EMIs. SEBI increased the cap for mutual fund investment into housing finance companies rated AA and above, permitting investment into HFCs by up to 15% in addition to the 25% sectoral cap in place. While there was a temporary slowdown in the growth for the sector due to the demonetisation and the Goods and Service Tax along with the imposition of Real Estate Regulation Act that is RERA the long-term growth outlooks remains positive.

Let me take you through the financial performance of the Company for the financial year ended March 31, 2018. The net interest income increased by 85% to Rs.496 Crores. The profit before tax increased by 97% to Rs.272 Crores. The return on equity was 15.1% for the year. Our consistent focus on the asset quality has helped in maintaining the gross NPAs. Our gross NPAs were at 0.8% of the AUMs as on March 31, 2018.

We have a conservative provisioning policy and therefore we have provided more than mandated by NHB. The average yield for the period was at 11.6%. The cost of borrowings was at 8.6% as compared to 9.3% in the financial year 2017. As a result, the net interest margin improved to 3.9% during the year vis-à-vis 3.4% for FY2017.

Due to our conscious focus on costs, the cost-to-income ratio has declined from 55% in FY2017 to 38% in the current year. In terms of the business performance, the disbursements registered a growth of 19% at Rs.8,695 Crores. The disbursements in the housing loan segment consisted approximately 75% to the self-employed segment.

The AUM registered a growth of 47% to Rs.16,379 Crores as on March 31, 2018. Out of this the total securitised assets were at Rs.1,724 Crores, approximately 11% of the AUM, and we expect the same trend to continue in the future. The home loan along with the affordable home loans consists of 51% of the total AUM. In the non-housing segment, the loan against property constitutes 21% while the construction finance segment contributes 28% to the AUMs.

As we increase our branch network in the Tier 2 and the periphery of the Tier 1 cities, we look forward towards a higher contribution of home loans particularly the affordable housing segment in our portfolio. The total borrowings as on March 31, 2018 stood at approximately Rs.13,200 Crores. We have a diversified borrowing mix with 47% contributed by the NCDs, 38% by the bank loans, and 4% by commercial papers. The capital adequacy as on March 31, 2018 stood at 19.7% with Tier 1 capital at 12.6% and Tier 2 at 7.1%.

The total branches rose to 54 as on March 31, 2018. We operate through hub and spoke model catering to over 125 locations. During the year, 11 new branches were made operational of which four were affordable housing branches. These are operationally low cost branches. As we seek to grow our affordable housing portfolio such measures would help build overall profitability by keeping the costs in control and at the same time, help in increasing the share of affordable housing in the overall mix.

In the coming quarters, we expect to maintain our growth levels to focus on network expansion, and higher productivity. We will continue to improve the efficiencies through a mix of low cost borrowings, strict opex control and yes, the most important aspect that is maintaining a robust asset quality also.

Also I would like to share a significant achievement announced last week. We have been recognised as the top 21 best place to work in Asia in 2018 by the Great Place to Work Institute. The recognition is the result of out best in the industry talent acquisition, retention and growth practices. Our employees continue to be our greatest asset.

Thank you all for joining in and we are now open to take questions from you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for the opportunity. In terms of our AUM mix how do we see the mix, may be three years, four years down the line? Currently, I think it is towards 30% above in the home loan, 30% LAP and construction?

Ravindra Sudhalkar: We are 51% of home loan and affordable housing put together of which affordable housing is 21%, but yes, directionally, we would like to take this to a level of 55% in the coming years. Having said that, it may not be on the AUM, but we may like to have a 55% on the book, that is what most of the housing finance companies do. The loan against property portfolio which we do the most being a private sector lending has a huge demand from nationalized banks, so we would continue to securitise our portfolio. Having said that, on the book, we will surely like to be 55% for housing in affordable housing.

Deepak Poddar: In terms of construction finance, what is our strategy?

Ravindra Sudhalkar: See our strategy is two-fold. One of the things is that our emphasis would remain on construction finance. If you look at Reliance Home Finance traditionally we have focus on Brownfield project, projects which are more than 50% completed and the builders who have delivered at least 5-lakh of square feet of space in the past is what we have done. At the same time, if you look at the ticket sizes what we have we are on the lower side compared to the competition. My average ticket size is 10 to 11 Crores, which would mean that it is a building of about 100 to 125 houses. So these are actually not very big projects, but the builders have a great track record of the past.

Deepak Poddar: Can you share it separately what is the NPA in construction finance?

Ravindra Sudhalkar: NPA in construction finance, if you typically look at it, it would be in the region of about 0.8% to 0.9%.

Deepak Poddar: In terms of our AUM we have said in the past Rs. 50,000 Crores by 2020 March, so are we already on to it or is there any change?

Ravindra Sudhalkar: So, when this announcement was made, post that we had a demonetisation, post that we had your RERA and the GST, we would extend it by six months and take it to March 2021, because earlier it was in December of 2020 now we are saying March of 2021.

Deepak Poddar: So Rs. 50,000 Crores by March 2021 is what we are targeting so that would still mean that if I do a rough math we still have to grow our AUM at a CAGR of 45% or 46% for the next three years to achieve?

Ravindra Sudhalkar: Absolutely and that is what we have exhibited over the last two to three years.

Deepak Poddar: So 45% AUM CAGR is what we might be looking at?

Ravindra Sudhalkar: Yes.

Deepak Poddar: If you see our competitors who are in the similar kind of business the cost-to-income ratio is generally in the range of on the lower end 20% and on the higher end to 30%, so where are we seeing our steady cost-to-income ratio right now?

Ravindra Sudhalkar: Directionally we would also like to be in the range of what we have mentioned. I cannot give you the number of years, sorry, but we would like to be in the range of 20% and up closer to 22% - 25%. Yes, in the near future, maybe we would be at 35% from 38% current level.

Deepak Poddar: In the near future, we are talking about three years?

Ravindra Sudhalkar: One year.

Deepak Poddar: So in one year we are looking at 25% cost-to-income?

Ravindra Sudhalkar: 35% is what I said, because see today, if you look at it while the market is growing at 18% we intend growing at a rate which is much higher than that. We have given a figure of 45%, which would be the CAGR, so when you have a higher growth rate, the costs will not come down so easily.

Deepak Poddar: And my final query is on ROA, any comment that you want to make on ROAs?

Ravindra Sudhalkar: The ROE is 15.1, the ROA would be in the region of about 1.4% to 1.5%.

Deepak Poddar: So any kind of or sort of ROAs we can achieve with the kind of results we have?

Ravindra Sudhalkar: I think I would like you to look into the current ROA levels only, but in future, we would improve on all the parameters and that is what we have done in the past.

Deepak Poddar: Understood. Thank you very much. All the very best.

Moderator: Thank you. We will take our next question from the line of Sehul Bhatt from CRISIL. Please go ahead.

Sehul Bhatt: Good afternoon everyone. Thanks for taking my question. My question persists to affordable housing segment, so how are we defining it. Is it in terms of ticket size or the area definition, which we use for CLSS?

Ravindra Sudhalkar: It is actually both. Normally we go as per the ticket size. What we are saying is that after the inclusion of MIG-1 and MIG-2 we are saying that any home loans up to 35 lakhs would comprise of affordable housing for Reliance Home Finance. Prior to that we had a different definition of 28 lakhs, but since the MIG-1 and MIG-2 came we thought that we should also increase the ticket size and said that up to 35 lakhs, it is affordable housing.

Sehul Bhatt: And EWS projects under PBA are also part of it?

Ravindra Sudhalkar: Yes, everything is a part of it. So up to 35, but having said that we do not source cases less than 7.5 lakhs in category B and C towns and less than 10 lakhs in category A town. So our ticket size normally is slightly higher 12 lakhs.

Sehul Bhatt: In terms of customer profile, typically affordable housing will have more of a non-conventional cash flow kind of customers compared to home loan, right?

Ravindra Sudhalkar: So, if you look at the profile, most of the people are not new to banks. They have a bank account. They have some loans may be a personal loan or they have a credit card also, so they know what is banking, they know what is giving payments on time, so most of the clients that we do have a CIBIL score.

Sehul Bhatt: Thanks Sir. Last question is compared to home loan and affordable housing between the two subsegments, which will have a higher NPA provision, any internal numbers?

Ravindra Sudhalkar: Currently both of them are at similar levels. We are not seeing any difference in both, but affordable housing, I expect the GNPA to be on the lower side.

Sehul Bhatt: Thank you.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal: Good afternoon Sir. One thing that we see is that our focus is on the self-employed segment and usually it is perceived to be a much riskier area. So can you share some of the perception about the due diligence that we do to safeguard that?

Ravindra Sudhalkar: As you rightly said, it is perceived to be a riskier segment, but however, we have had the same strategy for the last 10 years, we are now a 10-year-old company and over a period of time, we have developed an expertise in evaluating the self-employed segments. What we do is that most of the clients are met up by credit managers. It is not that we just do business of financials which the client gives. The clients are met up by the credit managers, we see what kind of financials he has, what kind of amounts go to his bank, because as I said, we have clients who are not new to banking. They already know banking. They already have a current account somewhere and so on and so forth, so if you look at it. He is a client with a track record. He has financials. So evaluating such clients is quite easy, appraising such clients is relatively easier and all the clients are cash flow base. The evaluation is all cash flow basis.

Ayush Mittal: Thank you.

Moderator: Thank you. Our next question is from the line of Yogansh Jeswani an Individual Investor. Please go ahead.

Yogansh Jeswani: My question is more on the competitive landscape. Now given that a lot of housing finance companies are looking to grow and how is the competitive landscape panning out, since everyone wants to grow at a very high rate, so how are things developing on ground and how are you comfortable in saying that you will be able to grow 40%, 45% CAGR?

Ravindra Sudhalkar: A very good question. Frankly we at Reliance firmly believe that with more competition, the market only expands and as I have said in my speech that India is still quite poorly penetrated as far as the mortgage and GDP is concerned, we are still at about 9.5% to 9.6% levels and our GDP would continue to grow at a rate of 7.4%. Looking into that I think the potential what India would have to offer as far as the mortgage is concerned, would be quite high and most of the players that we have seen as we are talking, I am sure there are about 96 to 97 licenses issued by the National Housing Bank, but most of the players that you are seeing are going to focus on a specific geography rather than being pan India. So I think each corner of the country has adequate potential to offer, so I really do not worry about more competition being there plus because of the GST I think most of the people have more stronger books of accounts and that would give adequate chance for all the competitors to underwrite the self employed clientele also.

Yogansh Jeswani: Sir, just to come back to the previous participant's question wherein you were discussing about how you go about finalizing your potential clients so that was on the housing front, right?

Ravindra Sudhalkar: That was on the housing as well as the loan against property front. All our clients are met up by the credit manager who are self employed. Of course salaried clients, you know, one can do a telephonic PDA up to a particular amount because there are a lot of other documents to know whether he is working there or no, but all self-employed clients are met up personally by our credit managers.

Yogansh Jeswani: Sir, on construction finance?

Ravindra Sudhalkar: Anyway he is met up by in construction finance in fact, we have much robust framework where the ticket size is being upwards of 10 Crores. He is met up by the credit managers as well as the business managers and depending on the ticket size. The business head normally visits all the clients which have 20 Crores and upwards also. In construction finance we have a rule. We do not give the entire amounts at one go. So there is a huge control on first disbursement and the subsequent disbursements depending on the area of construction as well as the kind of sales it does.

Yogansh Jeswani: Sir my next question or the follow up question I would say is, so one on a construction finance as we have said, we have 10-odd plus Crores ticket size loans and the projects are usually of around 100 to 150 Crores so I am guessing is…?

Ravindra Sudhalkar: 100 to 150 Crores.

Yogansh Jeswani: So these are actually mid sized builders?

Ravindra Sudhalkar: They are small to mid sized builders, but who have delivered 5 lakh square feet of space in the past, so they have adequate experience in building and selling.

Yogansh Jeswani: Basically I want to understand how with RERA setting in and a lot of talks going around wherein the bigger players are going to be the game changers and they are going to be the ones who are really benefiting out of it, so will the scenario change going forward and take for example, if you could also help us understand like what happens in case of projects gets tough? These are the two things I wanted to know?

Sangram Baviskar: Basically, as Ravi said earlier that we typically do Brownfield projects, which means that the projects are at a certain stage or of last mile funding, so honestly we do not take that risk because obviously the project has established, the sales have happened, construction is going in a good way. Response to earlier question that post RERA era how the small and medium players will pan out because the general feeling is that RERA is bias towards large developers, so that is not completely true. Basically, I think, the very small players will have a challenge, and we are talking of mid sized player at a pan India, but when we are talking about any particular geography, that player might be a large player in that area. So we have seen that as a credit strategy for across products, we do not do very low ticket size and as Ravi mentioned that we on-board clients with proven track record both in execution as well as institutional behaviors, so we typically do not fund any project where he is a first time borrower. We typically fund where he has shown execution capability as well as institutional track record. And with this size at least we have not seen any challenges in the RERA era.

Yogansh Jeswani: Sir, now that you are saying that you do last mile funding at a time when lot of things are already going well, so in such as case a bank would also be willing to lend to such a credible person with such good flows coming in and bank would have the power to extend loan at a much lower rate and just going by your quarterly yield that we get on construction finance, it has been in the range of 15%, 13%, 14% so how are we able to get these yields when banks has the option of providing loans to these players at a much cheaper rate? And how we compute earnings banks with such good clients?

Sangram Baviskar: Basically banks are traditionally very underpenetrated because they do not have a large distribution portfolio as far as CFS is concerned, so there we have advantage of being more closer to the clients, so that is the clear advantage we have got and that answers your next question as well because we are much closer to the client, we are able to give him a quick turnaround solution and hence we can charge that extra premium on the prices.

Ravindra Sudhalkar: To add to this, you know, I think the legal framework and all the legal understanding which is required in construction funding, normally banks go for a state accredited projects wherein the land title is in the builder name and all, see joint developments funding and such kind of projects, I do not really feel that anyone other than the housing finance companies would have an expertise in evaluating, so I think that is where we clearly have an advantage over the banks.

Yogansh Jeswani: Perfect. Thank you. Last question would be, there was an announcement that we are looking to raise some funds, so what kind of fund raising you are looking at equity or debt?

Ravindra Sudhalkar: It was an enabling resolution, which we took from the Board, but as we are talking we are adequately capitalised for our funding requirements in the near future also, so currently because whatever approvals we have taken is valid for a year. So that was an enabling resolution for us.

Yogansh Jeswani: Thank you. That is it from our side. All the best Sir. Thanks.

Moderator: Thank you. Our next question is from the line of Shubranshu Mishra from Motilal Oswal Securities. Please go ahead.

Shubranshu Mishra: Thank you for the opportunity. My first question is with respect to construction finance. Just want to understand what percentage of this is in the top 5 cities actually and how much and what percentage of the construction finance still has approval risk towards it?

Ravindra Sudhalkar: What is your second question please?

Shubranshu Mishra: What percentage of the construction finance book still has some amount of approval risk towards it?

Ravindra Sudhalkar: To answer your first question almost 70% to 80% is exposure in the top five cities and to answer your second question, we do not fund any project, which does not have any approval. So there is no question of this.

Shubranshu Mishra: Sure Sir and how do we look at the ticket sizes going forward in FY2019-2020 for construction finance? Do we see them increasing and if it is increasing, by what kind of percentage?

Ravindra Sudhalkar: To answer your question, I think we have developed an expertise in this segment and this is one segment where we feel that we have also developed a rapport in the market as far as the builders are concerned because of the service levels and because of our ability to understand, so I think the ticket sizes would be almost similar for this year.

Shubranshu Mishra: Right. And just one more question Sir, what would be our incremental yields on home loans, LAPs and construction financing?

Ravindra Sudhalkar: Well incremental yield that we get for CF are in the region of about 15%, 14.5% going to 15%.. On the loans against property it is about 11% to 11.5%. On the home loan front the yields are about 9%, that is 8.7% going to 9% and on the affordable housing the yields are close to 10% going to 10.25%.

Shubranshu Mishra: Thank you so much for your time. I will come back to the queue.

Moderator: Thank you. We will take our next question from the line of Bhavesh Jain from Envision Capital. Please go ahead.

Bhavesh Jain: Good evening Sir. Our disbursement growth has been 19% for this whole year so what would be the like-to-like AUM growth?

Ravindra Sudhalkar: Like-to-like AUM growth is 19% for the entire year on the AUM side we have grown from 11,174 to 16,300 Crores in the same period.

Bhavesh Jain: Can you give us the disbursement mix in home loan, LAP and construction finance for the whole year?

Ravindra Sudhalkar: It would be in the same region as the book; however, having said that, see what happens is that in affordable housing currently in the month of March, we have processed close to about 1500 unit disbursements. In March last year we were doing close to about 900 units disbursements because as you are aware in affordable housing as well as in housing the disbursement is basis the stage of construction and here in affordable housing the tranche is extremely small, so I think it is the number of cases that we disburse every month that is more important, so about 1500 units is where we are there currently.

Bhavesh Jain: Sir, what will be your prepayment rate?

Ravindra Sudhalkar: Prepayment rate other than the normal amount is 18% of the opening book. It is in line with what we have budgeted in the beginning of the year.

Bhavesh Jain: Sir what percentage of our asset will be fixed? Anything is there?

Ravindra Sudhalkar: All are variable rates.

Bhavesh Jain: Even on liability side also?

Ravindra Sudhalkar: So liability side, other than the NCDs, which are at, fixed rate, which is about 53%, the bank loans are at variable rate.

Bhavesh Jain: Sir, on the network expansion, this year we have added 11 new branches so what is the target for the next one or two years?

Ravindra Sudhalkar: What target we have for the next year is that we would like to be 75 offices and we would like to cater to more than 200 locations. Having said that we also have a digital lending portal and you know average age of the borrower is going down day-by-day, if we look at the first time borrower, I think most of the clients should come from the digital portal and we clearly want to put a number to it. Going forward I think people would come to us through digital portal only. So branches expansion would not be in sync with our AUM aspiration.

Bhavesh Jain: Thanks. All the best for the future.

Moderator: Thank you. The next question is from the line of Swaran Deep, an Individual Investor. Please go ahead.

Swaran Deep: Good afternoon everyone. Sir, I wanted to know one thing. I wanted to know that NBFCs and banks they are collaborating with more and more of Fintech such as loanbazaar.com for lead generation, so have you explored this option or are you planning to explore such plans?

Ravindra Sudhalkar: We are developing our in-house work force, because the cost of acquisitions through these multi-model channels is very high in long run, we internally organically want to grow and therefore we are having a very robust DST channel and a very good digital lending platform. We want to use our internal talents rather using these multi-model websites.

Swaran Deep: Thank you Sir. All the best.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to Mr. Asutosh Mishra for closing comments. Over to you Sir!

Asutosh Mishra: Thank you all investor for actively participating in the call and thanks to the management for giving their perspective. Thank you.

Ravindra Sudhalkar: Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen on behalf of Reliance Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.