



“LIC Housing Finance Q3 FY 2017
Results Conference Call”

January 17, 2017



ANALYST: MR. PRAVEEN AGARWAL- AXIS CAPITAL LIMITED

**MANAGEMENT: MS. SUNITA SHARMA – MANAGING DIRECTOR AND CEO -
LIC HOUSING FINANCE LIMITED
MR SUDIPTO SIL – DEPUTY CFO & INVESTOR RELATIONS
MANAGER- LIC HOUSING FINANCE LIMITED**



*LIC Housing Finance Limited
January 17, 2017*

Moderator: Ladies and gentlemen good day and welcome to the LIC Housing Finance Q3 FY2017 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would like to now hand the conference over to Mr. Praveen Agarwal from Axis Capital Limited. Thank you and over to you Sir!

Praveen Agarwal: Good afternoon everybody, and welcome to the earnings call for LIC Housing Finance. We have with us Ms. Sunita Sharma, MD & CEO, and Mr. Sudipto Sil to discuss the results. I would request Ms. Sharma to take us through the key highlights for the quarter, post which we will open the session for question and answers. Over to you, Madam!

Sunita Sharma: Good morning to all of you. Thanks, Praveen. At the outset, I welcome all of you to the conference call post our Q3 FY2017 results. As you would be aware, we have declared the Q3 FY2017 financial results yesterday. The key highlights are as follows: Revenue from operations are up by 13%; net interest income is up by 23%; loan portfolio is up by 15%; loan disbursements are up by 15% year-on-year; net interest margin for this quarter was 2.75% versus 2.58% as in Q3 FY2016; gross NPA is at 0.56% against 0.58% a year back; individual loan GNPA at 0.32% remained the same as at last year; net NPAs are down to 0.27% from 0.32% effective period; profit before tax is at Rs.765.60 Crores, a growth of 19%; and PAT was Rs.499.26 Crores, up by 19%.

The quarter that just closed could well be described as of the most eventful ones in recent times with global and domestic events with scale and magnitude that we have rarely witnessed. I am happy to share with you that in such a backdrop, the Company not only delivered healthy numbers, and it also excelled in several areas. During the quarter, the Company clocked a 15% growth in outstanding loans with retail loan book registering a 15% growth year-on-year. During the quarter, total disbursement was Rs.9684 Crores. Southern, western and eastern parts of the country witnessed very good growth. Towards the end of December improvement in inquiries have also been noticed. Despite the challenging external environment, disbursement in the individual loan segment stood at Rs.8555 Crores against Rs.8067 Crores for the same period in the previous year.

We had in our previous interactions indicated that the focus in the current year would be on the core retail business. In the month of January, we have launched a number of initiatives to strengthen our core mortgage business like the launch of a new product in the affordable segment with rates that are extremely competitive. The month of December 2016, especially second fortnight, witnessed some improvement in demand. With stable property prices and lower home loan rates, we expect growth to pick up strongly in Q4.

The developer loan segment witnessed good growth, largely as a result of a low base and cases in pipeline, which were disbursed in Q3. The composition of this segment of the business continues

to be around 3% of the total book. We would continue to remain selective and cautious in this area. The Company policy remains the same.

The prepayment rates, an area which has been closely monitored by us, has also witnessed a drop consecutively for last three quarters. Net interest income witnessed a strong growth during the quarter with a year-on-year growth of 23%. The incremental cost of funds has declined since November, allowing us to reduce our overall cost of funds sharply during the quarter. Incremental cost of funds for the quarter was 7.83%. The net interest margins recorded a strong growth of 17-basis point to a 22.25 basis point high of 2.75% from 2.58% in Q3 of the previous year.

For the nine months, NIMs have shown a 16 BPS improvement from 2.51% to 2.67%. The fall in cost of funds have allowed us to reduce our lending rates without compromising on our margins, which augurs well for incremental business growth. Further, almost Rs.3700 Crores of the high cost liabilities carrying a weighted average cost of around 9.4% to 9.5% are maturing in Q4, which will allow us significant re-pricing benefits.

The asset quality too continued on the trajectory of improvement with gross NPAs at 0.56% as against 0.58% for the corresponding period. In the individual loan segment, GNPA remained stable at 0.32% as compared to the previous year. Net NPAs declined to 0.27% from 0.32% a year back. The cost to net interest income ratio for the quarter remained in the 15%, 16% range.

During the quarter, provision of Rs.7.5 Crores was made for areas of wage revision. This is the last quarter for such payments.

The fourth quarter of the current fiscal promises to be quite positive on the back of improved demand from end users, coupled with low interest rates. The recent announcement of the government on new schemes on affordable housing is expected to further bolster demand in those categories.

With this brief introduction, let me welcome you once again and invite your queries. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We will take the first question from the line of Chandra Govindaraju from IDFC Securities. Please go ahead.

Mahrukh Adajania: I just had a few questions. Firstly, would it be possible to give the LAP disbursement for the quarter?

Sunita Sharma: Yes. The LAP disbursement is around Rs.1600 Crores.



*LIC Housing Finance Limited
January 17, 2017*

Mahrukh Adajania: I just wanted to check on developer disbursements. So what kind of developers would this be in terms of credit rating? And would you see similar demand or similar pickup in growth in developer loans even in the next few quarters?

Sunita Sharma: Actually, I did explain when I was briefing that this is a result of disbursements happening in various cases where the sanctions happened in the previous quarters. So our project finance is also a construction-linked financing. So what happens is, we sanction a loan; when the construction comes to a particular stage only, we are able to disburse. So these disbursements happen in Q3 because in many cases, the construction has come to a stage where we had to disburse. These are on the sanctions from Q3 – these are sanctions from previous quarters, and they all happened to come in Q3. And let me tell you that we choose and we are very careful, they are all A category – A+ category builders. We do not give to anybody who is less than our A category builders.

Mahrukh Adajania: Got it. And just in terms of sanctions, any colour you could give on your sanctions, approvals?

Sunita Sharma: You are talking about project finance?

Mahrukh Adajania: No. I am talking about overall, so individual land project financing?

Sunita Sharma: Just a minute. We have more than 11% increase in the sanctions for the quarter for nine months, I think. Nine months, yes. You want the exact figure I can give you.

Mahrukh Adajania: Yes.

Sunita Sharma: You want exact figure the sanctions are the sanction disbursements sanctions, Rs.25000 Crores nearly Rs.25000 Crores.

Mahrukh Adajania: Rs.25000 Crores?

Sunita Sharma: Yes.

Mahrukh Adajania: Thank you.

Moderator: Thank you. We will take the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Thanks. Madam, just firstly on these margins, we have seen significant increase in competitive intensity from first January. So how do you see margins on the back book trending for us in the next few quarters?

Sunita Sharma: On the back book?



LIC Housing Finance Limited
January 17, 2017

Dhaval Gada: I mean, not on incremental disbursement, but more how do you see back book getting re-priced? Do you see increase in prepayments? I just wanted to get some colour on margins. How do you see margins trending from here on?

Sunita Sharma: In my briefing also I said, in last three quarters, we have seen that the prepayments have come down. We have been working on that. I think, in last many interactions with all of you, I have been telling that we are focusing on prepayments. So as a result of that, we have been successful – the Company has been successful in arresting the rate of growth in prepayments. In fact, it has started going down. As a result of that, you see that we have been able to grow at 15% in loan book. We have grown in disbursements at 11%, and you see that loan book growth is at 15%. It shows that the exits are not there, literally not there at all. I mean, they will be there, but very miniscule. So I do not see much of an impact of that, firstly.

Secondly, we are focusing on this our focus on prepayment will continue. Whatever may happen and whatever the competitors may give the dialog rates you are competitive rates you are talking about. We are watching it and we will take measures to ensure that we are able to. And our rates are also very competitive. It is not that our rates are not competitive.

Dhaval Gada: So the overall focus will be on if I were to just ask, the overall focus will be on profitability or growth?

Sunita Sharma: Our focus is always stable growth with profitability.

Dhaval Gada: Secondly madam, if I just Rs.1600 Crore you mentioned about LAP disbursement, so roughly 4% is the individual home loan growth this quarter in disbursements, is that correct?

Sunita Sharma: No, no. It is more than 6%.

Dhaval Gada: 6%, okay. So how do you see that trending? How has the trend been in December and how do you see the trend for next few months I mean, few quarters?

Sunita Sharma: Next quarter, this Q4, we are thinking that for the year, it will be around 14%, 15%. Yes, it will improve definitely. And there is improvement in December also.

Dhaval Gada: Okay. And just lastly on expenses, what is the steady state expense? Now, one has to assume sort of you mentioned Rs.7.5 Crores was a one-off, so what is the new normal one has to expect on expenses?

Sunita Sharma: 15% cost to NII.

Dhaval Gada: Thank you.



*LIC Housing Finance Limited
January 17, 2017*

- Moderator:** Thank you. We will take the next question from the line of Roshan Chutky from ICICI Prudential Asset Management. Please go ahead.
- Roshan Chutky:** Thanks for taking my question. What is the LTV of LAP now Madam?
- Sunita Sharma:** LTV of LAP is normally very low. It is around 27%, 28%.
- Roshan Chutky:** 27%, 28% and what do we pay on the developer disbursement in terms of commissions?
- Sunita Sharma:** We do not pay anything.
- Roshan Chutky:** You do not pay anything?
- Sunita Sharma:** No, because we do not involve any agents or any intermediaries. We are do directly with the builder. We do not entertain anybody in between.
- Roshan Chutky:** And in the employee expenses, you said there is a wage arrears component also. How much is that?
- Sunita Sharma:** Rs.7.5 Crores.
- Roshan Chutky:** Sorry, come again please?
- Sunita Sharma:** Rs.7.5 Crores.
- Roshan Chutky:** What is your tenure on the developer portfolio, typically?
- Sunita Sharma:** Tenure will be around three to four, five years. I think three to four years, not even five years.
- Roshan Chutky:** Three to four years, because your repayment ratio, when I do the math, is about 40%.
- Sunita Sharma:** Yes, it will be, because four years back, it was much more. We have not been focusing on that. And that is why the growth, which looks very high to you, is actually not growth. It is only for the maintenance of the portfolio. 3% maintenance we want to make, then we need to grow because the turnaround is also is there. Maturing is happening and people are repaying and going back.
- Roshan Chutky:** Okay. And how much do we charge them? About 400 BPS is what I understood from previous calls. But how much are you charging them right now?
- Sunita Sharma:** You are talking about the interest rates?
- Roshan Chutky:** Yes, interest rates.
- Sunita Sharma:** 13% to 14% only.



*LIC Housing Finance Limited
January 17, 2017*

- Roshan Chutky:** 13% to 14%. And finally, when is your tenure coming to a close?
- Sunita Sharma:** That is a very big question. I have been replying to this question for last three years. We do not have tenure. I am retiring in 2019. So before that, if I do not go back to LIC, I am going to be there replying to your questions till 2019. If I go before that, somebody else will come, do not worry, Roshan. The Company is now on such safe place that all the HoDs have become as if they are going to run the Company on their own. It is on complete autopilot.
- I was sick for some time and the Company worked like this during this quarter when the results are so good I was not well. I think concall also my throat was not okay. It is better now, but not that well but the Company was run by these HoDs, so beautifully. It is on autopilot, do not worry. Systems and processes have been strengthened. Everything is so good, and I think now it is difficult to such a beautiful company.
- Roshan Chutky:** Thank you so much Madam. That is all from me.
- Moderator:** Thank you. We will take the next question from the line of Rikesh Nair from Franklin Templeton. Please go ahead.
- Rikesh Nair:** So, can you tell me what is the amount of fixed rate home loans converting to floating rate over FY2018 and FY2019?
- Sunita Sharma:** I think Sudipto will reply this question, if that was fine with you?
- Sudipto Sil:** We are now not tracking that number actively because, as you know, whatever upside etc. was there, it depends upon the interest rate prevailing at a particular point in time. But roughly around Rs.3000 Crores, Rs.4000 Crores you can take.
- Rikesh Nair:** Rs3000 Crores, Rs.4000 Crores? Okay. You mean Rs.3000 Crores, Rs.4000 Crores in FY2018 as in annually?
- Sudipto Sil:** Yes. For the first six months, it will be around Rs.3000 Crores to Rs.4000 Crores. Thereafter, the trend will come down because off late, we have not been selling these fixed-cum-floating loans.
- Rikesh Nair:** Okay. So incrementally, fixed rate home loans are not being sold?
- Sudipto Sil:** It is much lesser in component.
- Sunita Sharma:** We have shifted our focus from fixed-or-floating to pure floating.
- Rikesh Nair:** Okay. If you can give an idea what percentage of our new originations would be fixed rate?



*LIC Housing Finance Limited
January 17, 2017*

- Sudipto Sil:** New originations will not be more than 20%, very lesser.
- Rikesh Nair:** And the amount of NCDs which will be maturing in FY2018 and FY2019?
- Sudipto Sil:** FY2017, that figure, madam has already mentioned. FY2018 will be around, say, Rs.12000 Crores.
- Rikesh Nair:** Rs.12000 Crores. And FY2019?
- Sudipto Sil:** We will be slightly more than that. It will be around Rs.15500 Crores.
- Rikesh Nair:** That is it from my side. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Kunal Shah from Edelweiss. Please go ahead.
- Kunal Shah:** Congratulations Madam, good set of number in the backdrop of demonetization. Madam firstly, in terms of sanctions, again, coming through this, so what are the outstanding sanctions, particularly on the developer loan side? Outstanding sanctions, maybe where we will see the disbursements over next three, four quarters?
- Sunita Sharma:** Rs.2000 Crores – nearly Rs.2000 Crores.
- Kunal Shah:** Those are in the outstanding, which can happen base on the stage of the construction?
- Sunita Sharma:** Yes. That can happen over a period of one year also.
- Kunal Shah:** Yes. So maybe such kind of a trend, which was there in terms of Rs.1000 odd Crores, so that we do not...?
- Sunita Sharma:** Will not come. That will not.
- Kunal Shah:** Yes. That will not come.
- Sunita Sharma:** No.
- Kunal Shah:** Okay. And secondly, again, in terms of this entire re-pricing thing, so earlier when we had this fixed rate, when it got re-priced, it got re-priced at a relatively higher level?
- Sunita Sharma:** Yes.
- Kunal Shah:** Okay. So now in fact with the rates coming off, so incrementally now we are, say, lending it in the range of like 8.5% to 8.7%, up to 10%. So for these loans, which have already got re-priced, those loans also now come off with maybe the change in the rates, overall PLR or something and what



LIC Housing Finance Limited
January 17, 2017

would that proportion be, because that the gap is still there. When they shift, I think we tend to be slightly at a premium.

Sunita Sharma: Yes.

Kunal Shah: So how would be the reaction on that?

Sunita Sharma: No. People are very happy in fact. We shift them from the fixed-or-floaty to floating and they are quite satisfied because the difference is around, we give that around 9%, so the difference is 40 basis points to 50 basis points. It is a good margin for us and it is also lot of saving of hassle for the customer also. So I do not see there is any issue at that case.

Kunal Shah: Yes. Now what happens, that would be 9%, but earlier when we did it, it happened somewhere around 9.7%, 9.5%, and that was also a significant part of the loan book. So I just wanted to understand how would so what is the proportion which has got maybe re-priced at 9.5% and above, which is there in the book today?

Sunita Sharma: You are saying that what is the number of loans, which have got re-priced from 9.5% to 9%.

Kunal Shah: Yes.

Sunita Sharma: So, that is your question?

Kunal Shah: No, no. Earlier when we started off various schemes the Advantage 5, what to say, fixed or floaty and all of them, when this entire re-pricing happened from fixed to floating, at that time, the floating rate wherein it got settled once they were out of the fixed tenure, that was somewhere in the range of 9.5 to 9.9 odd percent?

Sunita Sharma: Kunal, one more thing let me tell you. We did not have high-yielding portfolio at that time. Today, we have a high-yielding portfolio. We need not go into that now.

Kunal Shah: Okay. So high-yielding in the sense LAP and developer?

Sunita Sharma: Yes.

Kunal Shah: Yes. So still but individual would be around about 86 odd percent?

Sunita Sharma: Yes. So, if an individual is giving me something, if he is able to give me some margins, not exaggerated margin but some margin, still we are in the safe zone. We still will have margins, good margins.



*LIC Housing Finance Limited
January 17, 2017*

- Kunal Shah:** Okay. So I think apart from the incremental loans wherein we are providing a lower rate, apart from that, a larger part of the book, what would be the rate out there on an average, on the individual side?
- Sunita Sharma:** We have that average rate. Average yield is there.
- Sudipto Sil:** Average yield there.
- Sunita Sharma:** What is the average yield?
- Sudipto Sil:** The average yield on the entire portfolio annualized, including the project loan and the non-core, is around 11% – slightly more than 11%.
- Kunal Shah:** No, no only individuals.
- Sudipto Sil:** Individuals will be a little less than...
- Kunal Shah:** So it will be somewhere around still like 10.5%.
- Sudipto Sil:** It is less than that. And non-annualized, it will come to in the range of 9.7% to 9.8%.
- Kunal Shah:** Okay, because when we calculate, it comes to somewhere around 10.5%, so I was just worried in terms of how...?
- Sunita Sharma:** That will be annualized.
- Kunal Shah:** Yes. So, how this 10.5% would react because our incremental rates are almost 8.5%? So in terms of margins, do we really see that okay, it would peak out in Q3?
- Sudipto Sil:** Yes. Actually, as far as this connect with the margin is concerned, the conversion product that we have allows the customer to come down to a lower rate of interest by paying some small conversion fee. So that is already there as a retention. But what we have seen is that there is no major conversion because for various reasons, the conversion does not happen in totality.
- Secondly, on the call of margins, if you see the cost of funds, which has come down significantly, that is fully not captured even in Q3. The benefit of it will probably be much, much more pronounced in Q4. Plus, whatever reason, buildup of project loan portfolio we have seen, which has happened in the third quarter that also is likely to give you higher interest income in Q4 itself.
- Sunita Sharma:** Q4 and Q1 of the next year.



*LIC Housing Finance Limited
January 17, 2017*

- Sudipto Sil:** And spilling over into the first quarter of the next financial year. So margin recovery, what we have seen till now, and coupled with that, you would note that fourth quarter exit margins are always high. So if you put all these three factors put together, then you will find probably that there is still some upside left on the margins, and this despite the fact that we have cut down our lending rates, because for there, we have got the backup of the higher cost bonds which are maturing, which madam shared in the opening remarks.
- Sunita Sharma:** One more thing is there, Kunal. I am not saying we will not improve margins, suppose I do not improve margins, so what? **(Inaudible) 24:07** very good number, know?
- Kunal Shah:** Yes, so in terms of overall revenue? Again in terms of the conversion, when you are saying that okay, they have to pay a fee, so what is that proportion, maybe that is like half of the difference between the new and the old rate?
- Sudipto Sil:** No it is 9%.
- Kunal Shah:** No, no. Some conversion fee, which they have to pay?
- Sunita Sharma:** That is only Rs.1000.
- Kunal Shah:** Okay, that is hardly Rs.1000. Okay. So post this rate cut, we are seeing more inquires on the prepayment side or it is more enquires on the new loans side?
- Sunita Sharma:** New loans. We have come out with a very good affordable housing product. On that, lots of inquiries are coming.
- Kunal Shah:** Okay. So we are seeing enquires going up.
- Sunita Sharma:** Yes.
- Kunal Shah:** Okay thanks a lot.
- Moderator:** Thank you. We will take the question from the line of Amit Ganatra from Invesco. Please go ahead.
- Amit Ganatra:** Only two questions. One is that the LAP disbursement you said was Rs.1600 Crores for this quarter. What was it for the third quarter of last year?
- Sunita Sharma:** Around Rs.1400 Crores, 33% increase on that.
- Amit Ganatra:** Rs.1400 Crores. Okay. So that was one. The second question is that you also provided that 7.84% was the average borrowing cost for third quarter, right?



*LIC Housing Finance Limited
January 17, 2017*

- Sunita Sharma:** Yes.
- Amit Ganatra:** Now, two things, one is that post this entire demonetization exercise getting completed, banks rates have come down. So the question is that if I you have to take I do not know whether you have done any borrowings over last 15 days on so, but has the weighted average borrowing cost come down further from 7.84%?
- Sunita Sharma:** 7.83%, it was.
- Sudipto Sil:** 7.83%, and recently in the month of January also, we have done a couple of borrowings, and in all those borrowings, the cost is less than 7.6%.
- Amit Ganatra:** Okay. So basically in that sense, the cost of borrowing even from third quarter average is still coming down?
- Sudipto Sil:** Yes.
- Amit Ganatra:** So 20 bps to 25 BPS leeway was there even there for you to be able to cut this rate, right?
- Sudipto Sil:** Exactly, because if you recollect, the third quarter, October rates were not very low. It had, it had actually come down in November.
- Sunita Sharma:** November.
- Sudipto Sil:** So the average for the Q3 also includes October borrowings.
- Amit Ganatra:** Plus, there is some portion of the bank borrowings that we have. There also rates benefit you should be able to do it?
- Sudipto Sil:** That has not been factored in December because the rates have been cut only from January 1 onwards. So that benefit will come fully in Q4.
- Amit Ganatra:** Correct. So in that sense, the only thing to understand is that while you have cut the lending rates, there are two benefits in terms of cost of fund, which are yet to be reflected. One is that the third quarter cost of borrowing itself is not getting reflected fully. On top of that, fourth quarter cost of borrowing is still coming down for you?
- Sunita Sharma:** Yes.
- Sudipto Sil:** And what we just discussed is that further, the bonds, which are redeeming in Q4, they are also giving us significant re-pricing benefits.



LIC Housing Finance Limited
January 17, 2017

- Amit Ganatra:** Okay. Correct. That should benefit to back book.
- Sudipto Sil:** Yes.
- Amit Ganatra:** Thanks a lot. I am done.
- Moderator:** Thank you. We will take the question from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** Thank you very much for the opportunity. Madam, going back to the back book and the re-pricing based on competitive pressure, the fact that you are confident of retaining your yield and spreads over there probably hinges on your customer behavior remaining the same, which is not coming to you and asking for lower rates. Is there a chance of that behavior could change because now we are actually seeing significant drops over the last six months in home loan rates versus the preceding two years? Is there any worry that that behavior could change?
- Sunita Sharma:** No. If the behavior changes also, do not worry, we are ready for it in the sense if there a change in behavior also, we are prepared for it in the sense we have also a conversion product available for them, so why would they like to go away? They will like to remain with us at a lower rate.
- Sunil Tirumalai:** What do you mean by conversion product?
- Sudipto Sil:** See, actually, we have got a product in which the customer, if he pays a small fee, he can come to a lower rate of interest, which is not very different from the incremental lending rate.
- Sunita Sharma:** But, there are 40-basis points to 50-basis points.
- Sudipto Sil:** There is a 40-basis point high, but it is still reasonably good compared to what is available in the market.
- Sunil Tirumalai:** So I think it will be useful if we know on the back book on an existing book, just on pure home loans, what is the yield on the portfolio? I mean, not the full yield including LAP?
- Sunita Sharma:** No. That is not what we said more than 10%.
- Sudipto Sil:** Slightly more than 10%.
- Sunita Sharma:** Slightly more than 10%.
- Sudipto Sil:** That is on the annualized basis. Yes, 9.6% thereabouts you can take.
- Sunil Tirumalai:** Right. So that could come down to about 9.4%?



*LIC Housing Finance Limited
January 17, 2017*

- Sudipto Sil:** Yes, if there is a full conversion, a 100% conversion.
- Sunita Sharma:** It is not possible.
- Sudipto Sil:** If there is a 100% conversion.
- Sunil Tirumalai:** So if there is a 100% conversion, around 60 BPS compression on that?
- Sudipto Sil:** Yes, 30 basis actually. 30-basis because you have to also understand that there are some loans which are in the fixed.
- Sunil Tirumalai:** Right. Yes, I understand. Got it. And madam, any update to the outlook or strategy on LAP compared to what the comments you have made in the past?
- Sunita Sharma:** No, there is no change. We will continue to be very cautious. And we do not want to increase it. We want to now focus on retail. The core and retail and that is why we have come out with some new products, affordable houses at very highly competitive rates. We would like to expand the retail book. And we do need LAP to only a limited extent, not to a very heavy extent. We would like to maintain the portfolio. Mainly we will replenish whatever rolls out, but basically we like to expand retail or core book and we continue to be cautious on project events.
- Sunil Tirumalai:** Okay. Thank you. And the last question basically the fee income if you could provide some idea as to how we should look at it going forward? Thank you.
- Sudipto Sil:** Sunil, this quarter fee income, if you compare then the last year, in third quarter, we had done some high ticket cases in the non-core segment, which had showed up the fee income. Further, during the month of October this year, we had launched some special offers where we had reduced the fees. But this month, that is January, we have actually increased the processing fee on several product categories, almost across the board.
- Sunil Tirumalai:** So this is a developer, you are saying?
- Sudipto Sil:** No.
- Sunita Sharma:** No.
- Sudipto Sil:** Core retail.
- Sunil Tirumalai:** Thank you very much.
- Moderator:** Thank you. We will take the question from the line of Deepak Kumar from Narnolia Securities. Please go ahead.



LIC Housing Finance Limited
January 17, 2017

Deepak Kumar: Thank you for the opportunity and congratulation, madam, on very good set of numbers. Madam, most of my questions have been answered, but I would like to know about the strategy on the origination front, the home loan agent has declined from 65% a year ago to 61%. So kindly put some light on that, how we can feed going further and how it will impact our commission-based expense?

Sunita Sharma: I think I did mention in the last few interactions that we are going to make more use of our housing, LICHFL FSL, a subsidiary, which is a distribution subsidiary. You may think that the home loan agent has reduced, but the share of business from the subsidiary has increased. We are making more use of it, so we are going to focus more on that. That is why the business share is happening more from, LIC Housing Finance, FSL.

Deepak Kumar: Thanks a lot and that is it from my side.

Moderator: Thank you. We will take the question from the line of Vishal Ranpariya from HDFC Securities. Please go ahead.

Vishal Ranpariya: Basically, Madam, about, we understand the current bond rate or if the current borrowing cost continues, as mentioned earlier that the last borrowing credit was around 7.6%. So how do you see the overall cost of fund coming down over the next two years?

Sudipto Sil: Actually if you see there is still a big difference between the incremental cost of fund and the weighted average cost of fund. Weighted average cost of fund is 8.8%, whereas incremental cost of fund from the bond market is around 7.6%. So that gives 100 basis points plus margin. So as long as the rates remain almost by 10 basis points, we have seen the weighted average cost coming down every quarter.

Vishal Ranpariya: Okay. And one more question, basically on the overall customer behavior. So given the fact that right now the current yield on the home loan is around 9.6%, 9.7% and the incremental lending is roughly around 8.5%, 8.6% in the market, so typically at what difference, typically a customer comes to the lender to asking him to lower the rates?

Sunita Sharma: Yes. Basically the lender does not come; very few lenders come on their own. It is normally the initiation is from the intermediaries. The intermediaries normally guide them that it is basically again for increasing their own business and getting more commission. Every time an intermediary gets one particular home loan taken over by from one comes to another, he keeps on getting the intermediary commission everywhere. So these are normally initiated by the intermediaries, not by the home loan borrowers, basically that. So we are aware of that, we are targeting the intermediaries as well as the customers. And on that basis, we have been able to for last three quarters, we have been able to arrest our fee income rate.



*LIC Housing Finance Limited
January 17, 2017*

- Vishal Ranpariya:** Then one last question to ask you. So given there is so much of re-pricing pressure, probably we know and the rate cuts announced by the banks, what is your internal target for the loan book growth for next year?
- Sunita Sharma:** We have kept 14% as loan growth target. And we have achieved already 16%. For the next year also we should be in the same, and we have not been planned, normally we do the planning in the month of February and Board approves it so it will be premature on my part to mention anything like that.
- Vishal Ranpariya:** Thank you, all the best.
- Moderator:** Thank you. We will take the question from the line of Hitesh Gulati from Haitong Securities. Please go ahead.
- Hitesh Gulati:** I have a couple of questions. Firstly, what is the incremental yield that we are offering on individual loans LAP and developer book? And the second question that I have is, what is the ticket size in the LAP and developer books currently?
- Sunita Sharma:** The LAP book, the ticket size will be around Rs.15 lakhs, I think Rs.12 lakhs, actually, the tickets are around Rs.12 lakhs to Rs.15 lakhs. And for developers' book, it will be around Rs.20 Crores to Rs.30 Crores.
- Hitesh Gulati:** Sorry, Rs.12 Crores to Rs.13 Crores?
- Sunita Sharma:** Rs.20 Crores to Rs.30 Crores.
- Hitesh Gulati:** And then what would be yield on the three segments, the incremental yields on new customers?
- Sunita Sharma:** That is for this incremental that is for the retail, it will be 8.5% to 8.7% and for LAP, it will be around 10.5% to 11% and for projects, 13% to 14%.
- Hitesh Gulati:** Thank you.
- Moderator:** Thank you. We will take the question from the line of Bhaskar Basu from Jefferies. Please go ahead.
- Bhaskar Basu:** Good afternoon. I had a couple of questions. A few of them have already been answered. Firstly, you mentioned about enquiries picking up since December, could throw a little more light around which are the areas, where you seeing this and especially given that last year you had a very strong disbursal number in 4Q, how do you see disbursal growth over the next one or two quarters?



*LIC Housing Finance Limited
January 17, 2017*

Sunita Sharma: Yes, we already expect good numbers in Q4 and now the inquiries are increased in December because I think people were expecting that there will be rate cuts in January. So sanctions took place, but disbursements, maybe they are waiting. We said we will wait and watch. So I think there would be good disbursements and good sanctions in the Q4 and Q1 of the next year also. Because the products which are there which we have now come out with affordable housing products, that should, I mean imbibe the imagination of the customer is one thing, and secondly the product is basically for unsold inventories, wherever the builders have unsold inventories in affordable housing and the sales are low, we have checked, we have come out with a product that it will help not only the builders but also the customer. They are getting very good rates, the customer, and we have our teams all across the country, have contractors and builders and the builders are also quite pleased at that and they are also ready to offer some concessions to the customers on this kind of a scheme. So I think that it will be a good advantage for the customer, so customer should be coming forward and the demand to pick up.

Bhaskar Basu: Okay. Secondly, on this whole issue of the re-pricing, I think my understanding was there was a reset price of about 9.9% earlier for converting from a higher yield to 9.9%. Now, has that got revised lower or is that?

Sunita Sharma: Yes, it is now at 9%.

Bhaskar Basu: Now that is 9%?

Sunita Sharma: Yes.

Bhaskar Basu: You mentioned the average yield of your existing book home loan book would be about 9.6%, is that right?

Sunita Sharma: Yes.

Bhaskar Basu: That is all from my side. Thank you.

Moderator: Thank you. We will take the question from the line of Sameer Bhise from Macquarie. Please go ahead.

Sameer Bhise: Thanks for the opportunity. Madam, the non-home loan portfolio is now roughly 14% of our book. Any thoughts on how or what proportion can it be over the next year or so or maybe a couple of years, what are you thinking on that front?

Sunita Sharma: I do not want to increase it further than this.

Sameer Bhise: Around similar levels?



LIC Housing Finance Limited
January 17, 2017

- Sunita Sharma:** Yes.
- Sameer Bhise:** Okay. And secondly, have you done any analysis or any thoughts on when you said that inquiries have gone up, what proportion would be new customers buying to look in to buy properties and what would be balance transfers?
- Sunita Sharma:** Mostly new only. We are into the primary market, actually. So mostly we acquire customers and others takeover, normally which has been happening last many years. But last three quarters, even the takeovers are coming down and literally just stopped in January completely. So normally it is primary customers for us.
- Sameer Bhise:** Okay, fine. Thank you. That is all from my side.
- Moderator:** Thank you. We will take the question from the line of Rahul Ranade from Goldman Sachs. Please go ahead.
- Rahul Ranade:** Thanks for the opportunity. Just from a borrowing composition standpoint, just wanted to ask, is there any particular percentage that we are looking at to take NCDs up to, which is right now around 81%, right?
- Sunita Sharma:** No, when three years back, when the bank volume was at 31%, the high rate of interest, we had to do something when margins were not so very good. So we had to reduce it to we brought it down to nearly 9%. But as the bank started giving us good rates, we will start borrowing more from banks and the NCDs, if we are not able to get good rates from the market, we will borrow more from banks, it depends on where I get a better rate, I do not have any target for NCDs or for bank borrowings, I have a target where I get better rate.
- Rahul Ranade:** Okay, so it is kind of very flexible to do that, as in it is not a difficulty to toggle between these two?
- Sunita Sharma:** No.
- Rahul Ranade:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, that was last question. I now hand the floor over to the management for their closing comments.
- Sunita Sharma:** Yes, thank you, all investors. Thank you so much for supporting the Company for all this time. And also thank you so much for remaining with us with all through thick and thin and it has really helped us to continue to improve better and better and your questions and your discussions always guide us further every time to better and to improve wherever you point it out to us. Thank you so much. Thanks a ton.



*LIC Housing Finance Limited
January 17, 2017*

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