



“LIC Housing Finance Results Conference Call”

January 18, 2016



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

Praveen Agarwal: Thank you Ali. Good afternoon everybody and welcome to the Q3 FY 2016 Earnings Conference Call for LIC Housing Finance. We have with us Ms. Sunita Sharma, Managing Director and CEO and Mr. Sudipto Sil to discuss the results. Congratulations madam on a good set of numbers. I would like to request you to present the key highlights of the results and then we can take ahead with Q&A session. Over to you madam!

Sunita Sharma: I would like to begin by wishing you a very happy New Year ladies and gentlemen and welcoming you to today’s con call post Q3 FY 2016 Financial Results declared by the company last Saturday.

The key highlights results are as follow. Income from operations is at Rs.3102 Crores up by 16.30%, profit after tax is at Rs.418.90 up by 21.65%, net interest income is at Rs.747 Crores up by 36%, individual loan portfolio is at 114035 Crores up by 16%, the developer loan portfolio is at Rs.3091 Crores up by 20%, net interest margins at 2.58% versus 2.20% as on Q3 FY2016 and 2.56% as on Q2 FY2016.

Gross NPAs at 0.58% against 0.510% a year back and 0.60% in second quarter of this year. Individual loans the NPA down to 0.32% from 0.33% a year back and 0.33% in second quarter of the current year. Individual loans disbursal growth was at 12.3% at Rs.8066 Crores.

During the third quarter we continued our focus on building up the high yield non-core portfolio including “LAP”. Right now it is 6.4% of our book as compared to 5.6% a quarter back, the LTPs in the LAP continue to be around 25% with the approximate 70% customers from salaried segment. Average ticket size is also lower than our normal mortgage loans.

Overall across various segments including non-core we have been seen good growth in western, central, northern and eastern parts of the country. Some sluggishness was seen in Chennai, in south, in Mumbai in the month of December though other cities especially Hyderabad did better. In project the developer loans segment the year-to-date disbursement growth was 44% while portfolio grew at 20%.

The Q3 disbursements in project loans have been lowered in the corresponding quarter, as you would like to ensure the quality is not compromise for the sake of growth. On the margins front we have been able to improve both year-on-year as well as sequentially a better asset strategy along with improvement in the cost of funds have helped to achieve 38 BPS improvement year-

on-year and also a small increase of two BPS sequentially to 2.58%. Asset quality, an area of strength continues to be one of our very best in the industry. Gross NPAs have remained at 0.58% whereas net NPA stands at 0.32%. In the retail category the G&PAs have actually come down marginally on sequential and year-on-year basis. In the fourth quarter which has always been our best we expect business go to pickup we are confident of closing the year with a 15% disbursement growth for a full year, which means that our expectation for Q4 are higher.

I will now take your questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now being the question and answer session. We will take the first question from the line of Kunal Shah from Edelweiss Securities.

Kunal Shah: Madam actually in terms of the overall loan growth so say overall on the individual side if we exclude LAP then there is a moderation in the growth and besides that when you look at it in this particular quarter and even in the last quarter repayment has been slightly on the higher side so this is maybe when we look at it in terms of our rates they are slightly higher so is this mainly the balance transfer cases which are happening?

Sunita Sharma: I think what you are saying is right, but we have last concall also I told you that we are working on this, and we have started a particular department for this who is going to take care of the portfolio retention. We have a very big focus on this. I think this quarter we should be able to show a very good growth on portfolio too. A combination of that slightly lower disbursement and slightly higher exit this is what has happened higher exit has been as you rightly said that it is because of the rate cuts in the last days of September so people have been slightly aggressive.

Kunal Shah: Yes, but so the RBI planning to align our lending rates as well to the others or will particularly separate entity?

Sunita Sharma: AS a strategy is to take care of the portfolio retention. Rate cut will not really help.

Kunal Shah: So to that extent may be whatever is the moderation in the growth we will try to maintain our margins?

Sunita Sharma: Yes, we will try to maintain our margins, we will try to grow better more growth in disbursement will help portfolio growth.

Kunal Shah: How about on the corporate side, I think maybe this quarter also it has been slightly within this sub 500 Crores so initially we were mentioning like the sanctions are slightly on the higher side so we should see some kind of an uptake, so how do you think maybe?

Sunita Sharma: See the growth in the portfolio in project finance or the developer loan is around 20% I would have wanted it to be around 25% not 20% but I think this quarter we should be able to make it up

for that and we should be able to deliver a growth of more than 25% year-on-year in the portfolio. Otherwise the disbursal growth rate is 44% year-to-date.

Kunal Shah: Yes that is true maybe on a lower base we can say that but maybe in terms of say the quantum so...

Sunita Sharma: Yes but you see that you can only see that if the base is lower you cannot suddenly increase it you have to be very careful and this being the most risky area and if you were to look at the whole environment outside I do not think it is possible now to take on very big growth, you have to be very careful that whatever we take we take a very good asset, we have a strategy of being very, very careful always and simply to ensure that we are not caught in the web off for going ahead with a great growth in project finance or margins we came with an interim strategy of going into the non-core segment, you remember that two years back, so it is only way this thing in mind no I cannot forget that and I cannot get into this area where I feel I do not get a good opportunity and I go there only because I have to show better growth in portfolio in project finance and the developer loan, I have to be careful while taking an asset we cannot take a liability.

Kunal Shah: So focus will be on margins and asset quality vis-à-vis?

Sunita Sharma: Yes always.

Kunal Shah: Thanks a lot madam.

Moderator: Thank you very much. We will take the next question from the line of Nitin Kumar from Prabhudas Lilladher.

Nitin Kumar: Congratulations madam on good results. Madam like last quarter we were discussing that there was one developer account in the LRD segment which we were expecting to be resolved in the current quarter so has that happened?

Sunita Sharma: No it has not happened.

Nitin Kumar: So there is basically no change, basically no NPL flow in portfolio?

Sunita Sharma: No.

Nitin Kumar: Outlook on that remains like we are expecting it to recover going ahead?

Sunita Sharma: Yes, actually we are working very hard on that and we feel that at least one account should get sorted out in this quarter. That should give us large lift.

Nitin Kumar: Madam like, are we expecting any teaser provisioning reversal in the next year?

- Sunita Sharma:** Nothing is left now. I do not think there is anything left it got over in first quarter of the last year, all teaser provisions got over in the first quarter of the last year.
- Nitin Kumar:** Even the five-year loan also there.
- Sunita Sharma:** All that yes.
- Nitin Kumar:** Madam can I have the disbursement data for LAP.
- Sunita Sharma:** LAP disbursement data, it is around 2200 Crores in nine-months.
- Nitin Kumar:** The sanction data?
- Sunita Sharma:** Sanction will be slightly more maybe 4000 Crores.
- Nitin Kumar:** Madam lastly, are you seeing any price correction across the major cities, towns in India?
- Sunita Sharma:** I cannot say that but we keep on getting some SMS that we should by it and all on that basis you can say yes some of the builders are offering you at lesser rates and some of the builders are saying some discounts are there and all that is happening when we get some personal SMS otherwise I do not see much.
- Nitin Kumar:** Thanks a lot.
- Moderator:** Thank you very much. We will take the next question from the line of Digant Haria from Antique Stock Broking.
- Digant Haria:** Madam congrats on the great margin performance. Madam, if you can just break this margin performance into three components which is the benefits coming out of the fixed rate portfolio converting into floating rates, secondly the borrowing cost benefit and thirdly because of LAP if I have to break that 38 basis points expansion into these three would it be possible to do that?
- Sunita Sharma:** Yes, it will be possible to do that. I will just tell you. LAP would bring that I think more than 15 basis points and this cost of funds are another 15 basis points and 7 to 8 will be probably about 6, 7 conversions.
- Digant Haria:** In this conversions how much of fixed rate book do we still have which will give us say a higher yield going ahead?
- Sunita Sharma:** I think 8000 Crores something in Q4 should come.
- Digant Haria:** In FY 2017?
- Sunita Sharma:** FY2017 around 15000 Crores.

- Digant Haria:** This would reprise at a rate, which will be higher by say 30, 40 basis points?
- Sunita Sharma:** Yes, we cannot say because every individual case will be different, so we will not be able to say that exactly I have not calculated the numbers for that and it also depends because it is a floating rate which also depends on the current rate. It will go to the floating rate, so now what would have happened two years back if it converts now it will be 30 basis points less today. So we have given 30 basis points cut so next year how it happens we would not be able to say.
- Digant Haria:** Last question is on this LAP portfolio we are doing this smaller ticket sizes so the yields here are what is the range of yields in this?
- Sunita Sharma:** Around 200 basis points higher.
- Digant Haria:** Thanks a lot.
- Moderator:** Thank you very much. We will take the next question from the line of Anand Laddha from HDFC Mutual Fund.
- Anand Laddha:** Good set of number. This is the first time we are seeing that the focus is more on profitability compared to the loan growth?
- Sunita Sharma:** Anand then you have not been listening to me properly, last two years my first call as I said growth is profitability.
- Anand Laddha:** Madam just wanted to understand this quarter the opex was quite high is there any one-off in the operating cost?
- Sunita Sharma:** No it is not one-off. Opex is high because if you really see the breakup payments on commissions are more and commission payments are more because if we are doing non-core business the rate of commission non-core business is there, because there the margins are higher.
- Anand Laddha:** Madam what the proposals and offers this is our generator to DSA?
- Sunita Sharma:** That I think it will be less because we have more with agents than with actually if you call it as if you call put all agents into DSA then all of it entirely has come from agents nothing comes direct.
- Anand Laddha:** What is the difference in commission between how much you pay higher for a LAP as compared to a mortgage?
- Sunita Sharma:** Nearly 1% I think higher.
- Anand Laddha:** The whole 1% commission is expensed out in the year itself?

- Sunita Sharma:** Actually it is like this. 1% we give to for non-core that is that LAP what you say, we do not call it LAP we call it non-core and for the other business it is 0.4%.
- Anand Laddha:** Madam, can you just give me the breakup of your provision like how much is the standard asset provision and how much is for SDA?
- Sunita Sharma:** Yes, we can give that.
- Sudipto Sil:** Anand actually if you look at because the increase in non-core portfolio has increased non-core portfolio requires standard asset provisioning of 1% whereas for core portfolio it is 0.4% so that actually is the reason why the provisions have been higher and there has been some bucket transition but otherwise NPLs have come down sequentially.
- Anand Laddha:** Lastly Madam just wanted to understand if I exclude the LAP disbursement the retail mortgage on disbursement this quarter has just gone by 7% YOY?
- Sunita Sharma:** Must. I have not calculated if you have calculated it must be correct.
- Anand Laddha:** That is it from me. Thanks.
- Moderator:** Thank you very much. We will take the next question from the line of Janvi Guradia from Motilal Oswal Asset Management.
- Janvi Guradia:** Good afternoon Madam. My question is that the NCLR guidelines becoming effective from April onwards maybe we will see more effective transmission for incremental borrowers in new loan the rates the transmission will be better so how do you see the competition panning out from the banks in terms of growth and impact on the yields?
- Sunita Sharma:** Two things one is that I do not think it will be also all the banks are lending at the base rates. They are lending for home loans higher than the base rate, so if base rates come down also because of the new regime it automatically does not mean that the rates are going to come down for the home loans. Secondly that whatever maybe the base of people we other companies our competitors we decide our rates on the basis of our borrowing cost, so whatever borrowing cost we have accordingly we will be having our rate and this business does not only happen on the base rate on the interest lending rate, if somebody has because the least lending rate does not mean he or she will have the whole business, this happens on the distribution channel this has happened with the kind of business model you have and I think that way we gain and we will continue to have our competitive edge.
- Janvi Guradia:** Okay, so you think that the growth it will not impact the growth for HACs or for LIC per se?
- Sunita Sharma:** Whatever it may happen if suppose something like this happen we will have our own strategies to take care of our growth model.

- Janvi Guradia:** Thank you.
- Moderator:** Thank you very much. We will take the next question from the line of Adesh Mehta from Ambit Capital.
- Adesh Mehta:** Madam, I notice that this quarter there has been some spike in provisions, so what could be the reason for this?
- Sunita Sharma:** Just now Sudipto explained to Anand about this issue about provisions that since the non-core business or the LAP business you call it has increased then because there is the provisioning rate is 1% as compared to staff or standard assets as compared to core business where it is 0.4% is our non-core has increased the provisioning will increase.
- Adesh Mehta:** But Madam, when I doing the math I am just seeing the difference between provisions it is not stacking up with the number which we have charged in the P&L this quarter so could there be certain write-offs as well this quarter?
- Sudipto Sil:** 35 odd Crores has been probably of the P&L. See 35 Crores has been out of which standard asset provisioning for core as well as non-core and also if you see there has been some increase in the developer loans also on a year-on-year basis by 20%. So there also the provisioning rate is about 1%. It is 1%. That is the standard asset provisioning. Now let me just give you the detail then secondly there is also some increase in provisioning because of bucket transition some of the NPLs have move to the higher provisioning buckets.
- Adesh Mehta:** See my sense is on standard provisioning there was an incremental provisioning of around 9 Crores this quarter because if I am comparing it to the balance for previous quarter?
- Sudipto Sil:** No that will not give you a correct picture because there was some very old items which will written-off for fully provided loans.
- Adesh Mehta:** I will take this offline with you and one more query I had so in terms of bank borrowings how less can we go in terms of bank borrowings as a percentage of a liability mix going forward from around 20%, 25% we have already come down to around 13%?
- Sudipto Sil:** Yes 12.5% there is still some room left.
- Sunita Sharma:** 1% or 1.5% not more than that, I think we will not like to go below.
- Adesh Mehta:** In terms of the fixed rate portfolio which comes for reprising in FY2017 that would be around 15000 Crores right, and the difference between the existing rate and the rates when they convert to the floating rates any quantification of that Sudipto?
- Sudipto Sil:** Actually this will come over next couple of years it will not come next year.

- Adesh Mehta:** Okay, 15000 will be over the next couple of years?
- Sudipto Sil:** 15000, yes I heard a different number so 15000 yes will be next year 2017.
- Adesh Mehta:** And in FY2018.
- Sudipto Sil:** FY2018 will be around same number maybe slightly more.
- Adesh Mehta:** Around the same number and next quarter it would be around 8000 Crores.
- Sudipto Sil:** Yes Q4, the quantification of the rate cannot be given as Madam mentioned in the earlier question because we do not know what will be the prevailing rate of interest on the date of conversion.
- Adesh Mehta:** No, but presuming that our floating rate remains flat?
- Sudipto Sil:** No it does look. This is not a correct presumption to make in this scenario actually and let us be very clear that when we talk about margin expansion most of it what we talk about is through organic means like we are tweaking the asset composition or doing something on the liability side we really are not looking at any margin improvement from the conversion if it comes it is good, but it is not part of our strategy.
- Adesh Mehta:** Okay Sudipto I will just ask the other way round this quarter whatever fixed to floating conversion has happened what was the spread differential between in that portfolio?
- Sudipto Sil:** Actually we have a product which is allowing the customer to come back to around the current interest rate levels the differential really if you see it is very transitory. It really does not contribute much. There is a product, which is available if the person paid some fees then we can come back to around say 10% or thereabouts.
- Sunita Sharma:** The fee is only Rs.1000.
- Sudipto Sil:** The fees are very small. That is the reason why I was referring that we do not take it as a part of a strategy to shore up margins if it comes it is welcome.
- Adesh Mehta:** Thanks a lot. Thank you Madam.
- Moderator:** Thank you very much. We will take the next question from the line of Sweta Datadar from KR Choksey Shares & Securities.
- Sweta Datadar:** Good afternoon Madam. Just two queries our LAP plus developer loan mix stands at 9.02% this quarter and you mentioned in the last quarter that this percentage is expected to improve a little more than 10% by end of this fiscal so are we there on the target or do we expect to exceed this 10%?

- Sunita Sharma:** We expect to exceed slightly.
- Sweta Datadar:** Madam, secondly you had introduced or designed new product that is the doctor loans so how much is this as a percentage of total and how are the yields panning out there?
- Sunita Sharma:** It is not doctor. It is hospital. It will be total you can say 400 Crores odd and not more than that, and yields will be similar 100 basis points.
- Sweta Datadar:** So should be somewhere around 13%?
- Sunita Sharma:** No, it will be around 11.9%, 11.8%.
- Sweta Datadar:** Madam, one last question our pure floating rate loans last quarter as a percentage of overall portfolio was 35%, this quarter is 40%, so can you elaborate more on this like how do we read into this?
- Sudipto Sil:** Actually there has been conversion from fixed rate to floating rate during the quarter as was mentioned by the earlier caller it is because of that.
- Sweta Datadar:** Going forward?
- Sudipto Sil:** Going forward it would slightly increase.
- Sweta Datadar:** That is all from my end. Thank you.
- Moderator:** Thank you very much. We will take the next question from the line of Prakhar Sharma from CLSA.
- Prakhar Sharma:** Good afternoon everybody. My congratulations for good set of numbers. Two questions Madam, one on your loan growth. I was just trying to understand especially the housing loan book that is on a stock basis it is currently growing at about 12% if I take off the LAP book and if I am looking at the bank sector data that RBI puts up there the growth is still around 17%, 18%. If I may ask one, are you seeing generally that the market as a whole even if it is growing as much are you seeing it being driven by some riskier aspects and that is why you are happy to grow at a slower pace and obviously LAP market is helping you? Secondly, is there a reasonable deflation, which is hurting? Is the volume growth higher than your value growth in the housing loan book that is question one? If you can answer this then I will just ask the other one. Thank you.
- Sudipto Sil:** Your query was regarding the bank data. I do not know how the banks give the data whether they include other loans like loan against property within that or they categories it as one that is something I do not know so I will not be able to comment. The other part of it is the deflation see actually we have seen across several quarters and several years earlier also that even when there is stability or reduction in property price it does not necessarily lead to a lowering of ticket size because at the same time the income levels continue to go up, so people actually tend to try and

afford slightly better apartment bigger or better so it is not necessarily correct that whenever there is any property price stability the ticket price will come down and property prices have been stable they have not corrected also. What was your other question?

Prakhar Sharma: So on the other question is basically just a quick reconciliation on the provisioning data?

Sudipto Sil: We have actually just given the entire details.

Prakhar Sharma: I heard that. Just want you use to be said that some of the bucketing has shifted so I assume that is for NPL so the net NPL on a QOQ basis has gone up a little even as gross NPL is stable.

Sudipto Sil: Actually if you look at it, it has not there.

Prakhar Sharma: If it was a write-off it is okay, it is a very small different do not want to get into that.

Sudipto Sil: Yes.

Prakhar Sharma: On the liquidity requirement as we know in terms of the fact that your floating rate percentage will continue to rise whereas you are increasing the fixed rate borrowings in the book. Is there any way in which you are also balancing the margins because the balance is shifting the other way or is it all fine you would be not there?

Sudipto Sil: It is all fine. It is actually not the way you are looking at it, because though the conversion is happening on one side the origination of similar product is continuing on the asset side so that is when there was an earlier query where I said that it might increase slightly that was the answer given if you have noted.

Prakhar Sharma: Last question we have discussed it in the past, Sudipto the fact as of today which is your highest selling mortgage loan category and how much do you originate in that segment as a percentage of total ballpark and in that segment what is the difference or how competitive what is the difference?

Sudipto Sil: We have a product, which is at 9.6%.

Prakhar Sharma: Which is comparable right with others?

Sudipto Sil: Yes 9.6% so that way if you see the rate is actually quite comparable and competitive because the differential between the **(inaudible) 29.52** leader will not be more than 10 basis points, it maybe 5 to 10 basis points.

Prakhar Sharma: This product will be like 60%?

Sudipto Sil: Yes.

- Prakhar Sharma:** That is about it. Thank you Sudipto. Thank you Madam.
- Moderator:** Thank you very much. We will take the next question from the line of Hitesh Gulati from Haitong Securities.
- Hitesh Gulati:** Good afternoon Madam. I have two questions; one is on advertisement expenses so we see that we have been jump from around 2.3 Crores to 7.8 Crores just wanted to get more colour on that? The other question was on other income which has actually seen a fall from 35 Crores to around 17 Crores so you could just provide colour on both of them?
- Sunita Sharma:** I think the advertisement expenses because last quarter expenses actually were not paid in last quarters, they were paid in this quarter that is why it looks a little skewed otherwise they are all normal within the budgetary limits and the second thing about the other income, actually let me tell you what is the other income for LIC Housing Finance. It is mostly the income from mutual funds, which is and when we have free float funds, which are placed in the mutual funds. Now what we have done is the last one-year we have now been trying to reduce the free float so that we are able to get more out of that and that is why the interest income is better. We are able to more judiciously use the funds.
- Sudipto Sil:** If I might, Hitesh regarding the advertisement expense if you make a nine-month comparison it is actually lower on a nine-month basis.
- Hitesh Gulati:** Thank you Madam.
- Moderator:** Thank you very much. We will take the next question from the line of Adarsh P from Nomura Capital.
- Adarsh P:** Madam, just a quick question on the prepayment rate. I just joined in a little late. It seems to be going up for the last two quarters. So any specific reason because it is good to have a margin focus but the point is where disbursements are growing slowly along with higher repayments can mean much slower mortgage growth so if you can just explain?
- Sudipto Sil:** Adarsh, actually if you see the we had discussed it also earlier the repayment rate has increased slightly but why you are seeing probably the loan book growth moderating as compared to earlier times because the disbursement also would have been slightly lower so it is actually slightly lower disbursement and slightly higher exits, but if you look at it we have made it very clear that profitability and growth with profitability and asset quality has been the focus will continue to be the same and as far as the containment of it is concerned between Q1 and Q2 the increase in exits was quite large whereas between Q2 and Q3 though there is an increase the trend is actually tapering so that also you may please see.
- Adarsh P:** So you would expect that repayment rates ideally should be lower going forward?

- Sudipto Sil:** Yes, because if you see the increase between Q1 and Q2 was very sharp and in the post Q2 earnings call we had mentioned that we are putting in place machinery, which will enable us to moderate it and though the rate per se has still continued to increase the rate of increase has come down significantly.
- Adarsh P:** Second question I see in the funding mix the share of deposits has moved up from 2 to 3.5 so if you can just explain that that seems quite positive?
- Sudipto Sil:** That seems quite positive. We had always maintain that we will increase the deposit but we will not increase it aggressively and the point to be noted is that during the quarter we had actually cut down on the deposit rate, but despite that we are seeing good inflows.
- Adarsh P:** Where do you want to take this, you are at 3.5 would you want this to be 10%, 15% over the years or no?
- Sudipto Sil:** First, we will reach a level of 5% then we will talk about 10% and 15%.
- Adarsh P:** What are the rates that you are offering currently?
- Sudipto Sil:** It is from around 8.35 beginning for 8.35 then it moves up to depending upon various tenures.
- Adarsh P:** Thanks Sudipto.
- Moderator:** Thank you very much. We will take the next question from the line of Nishchint Chawathe from Kotak Securities.
- Nishchint Chawathe:** My question again pertains to the prepayment rate, I was just curious if you do have some broad color whether this is on accent of transfers to other banks or is it because customers are generally prepaying.
- Sudipto Sil:** No there could be some balance transfer; there could be some balance transfer.
- Nishchint Chawathe:** But the increase that you have seen is primarily because of balance transfer people.
- Sudipto Sil:** Yes.
- Nishchint Chawathe:** Any sense on broad breakup if you could have?
- Sudipto Sil:** In terms of what?
- Nishchint Chawathe:** The break up of prepayment between how many people are actually transferring versus how many are genuinely prepaying?
- Sudipto Sil:** No the increase is more because of the balance transfers that is for sure.

- Nishchint Chawathe:** Since you put in the measure to arrest it, it effectively means that this number should come down?
- Sudipto Sil:** As I mentioned in the earlier query also you see the increase between Q1 and Q2 that was very sharp between Q2 and Q3 also there is an increase but it is only in a few basis points, so we are actually on the path of arresting the increase.
- Nishchint Chawathe:** But the way I would read it is that if your prepayment rate were 11% in the first-half and 11.6% in the nine-month then effectively the ratio would have been much higher in the last three months?
- Sudipto Sil:** No but if you see the increase between Q1 and Q2 I was referring to that.
- Nishchint Chawathe:** Okay got it you are talking about the pace at which it is increasing.
- Sudipto Sil:** Yes.
- Nishchint Chawathe:** I think I missed the number on disbursements during this quarter in the non-core segment?
- Sudipto Sil:** Disbursements in the non-core segment was around 1300.
- Nishchint Chawathe:** Thank you very much and all the best.
- Moderator:** Thank you very much. We will take the next question from the line of Umang Shah from Emkay Global.
- Umang Shah:** Thanks for the opportunity, but all my questions have been answered. Thanks and all the best.
- Moderator:** We will take the next question from the line of Adesh Mehta from Ambit Capital.
- Adesh Mehta:** I have one small question, we had seen a PLR cut this quarter has this been passed onto all our floating rate customers?
- Sunita Sharma:** Yes 30 basis points over the book.
- Adesh Mehta:** So we should not see its impact over the next quarter right?
- Sunita Sharma:** No.
- Adesh Mehta:** That is it. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Vipul Shah from Sumangalam Investors.

- Vipul Shah:** Good afternoon Madam. I just want to know what are the details of the mechanism that you have put to arrest this prepayment, what is the penalty can you quantify it?
- Sudipto Sil:** No, there is no penalty for reducing prepayment because I do not know whether you are aware the regulator does not permit us to put any penalty.
- Vipul Shah:** Then how do you discourage it?
- Sudipto Sil:** Yes, discouragement is I would say I would not use the word discouragement it is a process of communication with the customers and whenever the communication increases we have seen that we are able to arrest the exits because many times we have also put in place a product which allows them to come to a lower rate of interest by paying a small fee that has also been introduced plus on at the corporate office level we have setup a department which on a day-to-day basis monitors the exits and whenever there is slight uptake and increase in any office there we get into the process of communicating with the customers and with the intermediaries as well as officers.
- Vipul Shah:** My second question is what should be the average difference between your rates and nationalized banks if you can give any sense?
- Sudipto Sil:** Nationalized banks I do not know which bank you are referring to, most of the nationalized banks are lending at rates which are higher than us and State Bank probably will be around 5 to 10 basis points lower than us.
- Vipul Shah:** So most others are higher rate?
- Sudipto Sil:** Definitely, because their base rates are higher than the rate which we are lending.
- Vipul Shah:** If I have understood correctly the spread in LAP and developer loan is 200 basis point higher than this core business is that correct?
- Sudipto Sil:** No, the developer is 200 basis points higher than LAP and the LAP is in turn 200 basis points higher than normal mortgage.
- Vipul Shah:** Thank you very much and all the best for the future.
- Moderator:** Thank you. We will take the next question from the line of Manish Shukla from Deutsche Bank.
- Manish Shukla:** Thank you for the opportunity. Madam, you explained the margin expansion across three components (inaudible) 39.47 cost of funds, but if we were to compare 3Q 2016 versus 3Q 2015 the assets are naturally down (inaudible) 39.57?
- Moderator:** Manish we are unable to here you.

- Manish Shukla:** I will come back in the queue.
- Moderator:** We will take the next question from the line of Sameer Bhise from Macquarie.
- Sameer Bhise:** Thank you. Just wanted to ask if there is any comment would you like to make on underlying volume growth?
- Sudipto Sil:** Underlying volume growth continues to be decent. I do not know exactly what you are referring to.
- Sameer Bhise:** In terms of new accounts added if you can refer to that?
- Sudipto Sil:** See new accounts added have been growing at around 6%, 7%. Just to give you an example for example last year for nine-months we have done a 104000 accounts; this year we have done around 114000 accounts so that gives you an increase of around 10%, around 9 point something as closer to 10% so that continues to be quite decent.
- Sameer Bhise:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Rahul Jain from Goldman Sachs.
- Rahul Jain:** Good evening Madam and Sudipto. There are actually two, three questions. First on your weighted average cost from banks it is at about 10%-odd which is almost about 50 basis points higher than the base rate of other top five banks so over what period of time can we expect this rate to go down?
- Sudipto Sil:** It has already come down to base rate because we just need to annualize. We would be aware that whatever rate the bank charges is the monthly rate, so if you annualize it would come to 10%.
- Rahul Jain:** Second, is on this fixed to floating you said there is already one product wherein customers can pay some fees and move to a lower rate? Now in the last couple of quarters how has been the experience how many customers actually end up move into this lower rate product, can you give us some colour on that?
- Sudipto Sil:** Yes, almost 77000 customers are converted.
- Rahul Jain:** What would that be that percentage of the borrowers whose loan would have been reprised to floating?
- Sudipto Sil:** I would say it closer to 50%.
- Rahul Jain:** 50% odd.
- Sudipto Sil:** Yes.

- Rahul Jain:** Last thing is can you share with us your new tier 1 ratio after this risk weightage reduction?
- Sudipto Sil:** I think it should be closer to 14%.
- Rahul Jain:** Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Rajesh Kothari from AlfAccurate Advisors.
- Rajesh Kothari:** Good afternoon Madam. I have two questions. One is can you first highlight with reference to some recent change in norms for housing finance companies with reference to their exposure to some banks there is some norm, if you can just highlight what is the effect if any on LIC Housing because of that?
- Sunita Sharma:** Yes actually earlier the SEBI had the limit of 30% for NBFCs for the mutual funds to invest in the NBFCs with an additional limit of 10% for housing finance companies. Now that has been change from 30% to 25% and addition limit has been changed from 10% to 5%. So there was an apprehension in the market that it is going to impact investment into our company so we will not be able to probably raise or it will impact our raising funds in the market, but let me also give you some data that when the limit was 30% plus with additional 10% the mutual fund had invested in the NBFCs only at 14.5% so it means it had not even completed 30% so where was a question of touching the 10% and so 25% is a very good number after having first so many years doing 14.5%. I do not think even for a very long time it is going to really impact the raising of funds by the housing finance companies.
- Rajesh Kothari:** Whether it is per fund exposure to per instrument whether LIC Housing is kind of a limiting any of the funds from an internal analysis perspective?
- Sudipto Sil:** I think it is from any fund manager's point of view it is nearly impossible to put 40% of his money into the instrument of one company, possible.
- Rajesh Kothari:** Not like that I am saying if there is internal generally limit of 5% to 10% of each fund.
- Sudipto Sil:** There is no 5% to 10% actually it is 30% for NBFCs in totality it is 25% and if you want to invest further that 5% can come in HFC.
- Sunita Sharma:** In any case what is happening is that when we raise the funds most of the time it is banked through sort of come to our bonds, not mutual fund companies and mutual fund companies have very, very limited exposure to our bonds.
- Sudipto Sil:** So it is out of our 76000 Crores NCDs around 14000 Crores is only invested by mutual funds.
- Rajesh Kothari:** It is about close to 20% of the investment in HFC.

- Sunita Sharma:** Yes.
- Rajesh Kothari:** My second question with reference to it is most strategic question that with more and more competition coming into the housing finance segment as many NBFCs are also entering banks also wants to further penetrating to the housing?
- Sunita Sharma:** Do they?
- Rajesh Kothari:** Yes, housing finance is one of the area because anyway the corporate loan book is nothing much will happen on the infra side and corporate side. How do you see your competitive positioning from the market share perspective if you can further elaborate it in terms of the last say five years what was your market share five years back how do you further plan to improve your market share?
- Sunita Sharma:** First of all we do not want to. I do not know how it will be taken by all the investors, but we do not focus on market share. We focus on growth with profitability, we are very clear about that. Secondly while focusing on growth with profitability we have been able to gain market share. When you grow profitably and as there is byproduct of that if you gain market share it does not matter at all. It is very good. So for us what is important is that we should go have a healthy growth rate and we should be able to show some good margins. We should be able to collect good asset quality. This is what is my focus. I do not think we need to focus on the market share.
- Sudipto Sil:** But just as a matter of information in the last five years our market share was actually doubled from 5% to 10% and whisked through all those quarters when all the banks that you are referring to have been always telling the market that they are extremely aggressive in mortgages.
- Rajesh Kothari:** So over next two to three years from your focus perspective how do you plan to further grow profitably of course that means underlying volume growth also needs to be there and the spreads needs to be protected. So can you just giving through lines what will be your most important strategy points?
- Sunita Sharma:** The present strategy, which is what we are doing, that has been continue and that is going to help us. Let me tell you that we plan to deliver an annual 15% growth. You are seeing till now around 12.3%, 12.5% growth in disbursements but our annual growth target is 15% and we are going to deliver that and what is going to happen is that we are going to make use of and basically available opportunity will be the biggest available opportunity will be affordable housing. We have seen some kind of uptake in the builder's interest in affordable housing. The movement the builder's interest will rise and the supply of the affordable housing will start taking place then a lot of opportunity for housing finance companies will be there for financing those housing units because demand for affordable housing is already there only thing the supply is not that good. We have an oversupply in the premium segment but in the affordable segment we do not have enough supply and we have a lot of demand there, so that these two thing will match when the supply in the demand will match there will be a lot of opportunity and all those people whom we

are thinking will be there for competition will be able to play there will be lot of opportunity for everybody who have their pie, and I think it is going to be great market for next three, four years it is going to be great business, for everybody. Growth will not be an issue at all for anybody.

Rajesh Kothari: Probably I will take questions more offline, great. Thank you.

Moderator: Thank you. We will take the next question from the line of Utsav Gogirwar from Investec.

Utsav Gogirwar: Can you just provide me with the average ticket size for the LAPs the incremental cumulative?

Sunita Sharma: I think it is 19 lakhs for the total.

Sudipto Sil: For the LAP it will be around 15 Lakhs.

Utsav Gogirwar: Incremental?

Sudipto Sil: Yes.

Utsav Gogirwar: That is it from my side.

Moderator: Thank you. We will take the next question from the line of Preeti RS from UTI.

Preeti RS: Good afternoon Madam. Congratulations on good set of numbers. Just taking on from the question from previous query that you answered the affordable housing that you are going to focus on so we understood that affordable housing will be more beneficial for the smaller housing finance companies, so you are saying you would be able to leverage this more from the builder's point of view or you would be actually financing the small retail borrowers?

Sunita Sharma: If you really look at the definition of affordable housing first of all that is not small. It is around you look at my average size of housing loans. Actually affordable housing is up to 40-50 lakhs isn't it so affordable housing will be a good market for everybody not only for small housing finance companies. Secondly for the builder's perspective also it will be a good market for the individual perspective also it will be a good market.

Preeti RS: Thank you.

Moderator: Thank you very much. We will take the next question from the line of Manish Shukla from Deutsche Bank.

Manish Shukla: Just one question on margins, you said that margins are helped by cost of funds as well as yields but if you compare 3Q 2016 to 3Q 2015 yields are virtually flat and the entire benefit on margins has been driven only by funding cost. This is a period in which the non-core LAP component has also gone up so just wanted to understand why are the yields are moving up despite of a favorable change in product mix?

- Sudipto Sil:** No, Manish the biggest thing that you have probably missed out is the fact that the PLR cut has happened 30 basis points.
- Manish Shukla:** Yes, but LAP is 200 basis points over mortgages right and the mix has changed?
- Sudipto Sil:** I am talking of PLR. PLR has been cut by 30 basis points on the entire loan book so even if there has been a positive contribution because of the increase in LAP we are not seeing it on the total yields number because of the 30 basis point reduction on the total book, you are getting my point.
- Manish Shukla:** So basically the 40% of the floating rate book that is what has the 30 basis points impact. The second question you said that there is a product now where fixed to floating customer can pay Rs.1000 odd and get it converted what was the Rs.1000 fee last year in fiscal 2015?
- Sudipto Sil:** It was not there, the product was not there.
- Manish Shukla:** Thank you those are my questions.
- Moderator:** Thank you very much. As there are no further questions I would now like to hand the conference over to the management for closing comments.
- Sunita Sharma:** Thank you very much for a very good set of questions and your expectations and your queries most of time tell us about your expectation it guides us for the future. Thank you so much for being invested with us. Thank you.
- Moderator:** Thank you. On behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.