



## “LIC Housing Finance Limited Q3 FY-19 Earnings Conference Call”

**January 31, 2019**



**MANAGEMENT:** **MR. VINAY SAH – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, LIC HOUSING FINANCE LIMITED**  
**MR. SUDIPTO SIL – DEPUTY CHIEF FINANCIAL OFFICER, LIC HOUSING FINANCE LIMITED LIC HOUSING FINANCE LIMITED**

**MODERATOR:** **MR. VIKASH MUNDHRA – VICE PRESIDENT, AXIS CAPITAL LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the LIC Housing Finance Limited Q3 FY19 Earnings 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 now hand the conference over to Mr. Vikash Mundhra from Axis Capital Limited. Thank you and over to you, Mr. Mundhra.

**Vikash Mundhra:** Thank you, Bharat. Good morning everybody and welcome this earnings conference call of LIC Housing Finance. We have today with us Mr. Vinay Sah – Managing Director & Chief Executive Officer and Mr. Sudipto Sil – Deputy Chief Financial Officer to discuss the quarterly results.

I would request Mr. Sah to take us through the key highlights of the quarter post which we will the floor for Q&A. Over to you, sir.

**Vinay Sah:** Good morning and welcome to the post earnings conference call of LIC Housing Finance Limited. As you would be knowing LIC HFL declared its Q3 FY19 results yesterday.

The key highlights of the results are as follows. Revenue from operations Rs. 4,414 crores as against Rs. 3,587 crores for the corresponding quarter of the previous year, a growth of 23%. Outstanding loan portfolio at Rs. 181,698 crores against Rs. 156,176 crores reflecting a growth of 16%.

Individual portfolio at Rs. 170,334 crores against Rs. 149,986 crores which is up by 14%. Disbursements at Rs. 12,778 crores as against Rs. 12,292 crores for the same period in the previous year, a growth of about 4%. For the nine months ended 31 December 2018 disbursements were Rs. 36,666 crores reflecting a growth of 15%. Net interest income at Rs. 1,042 crores as against Rs. 738 crores up by 41%.

Net interest margins at 2.33% as against 2.35% for Q2 FY19. Profit after tax for the quarter stood at Rs. 596.31 crores as against Rs. 475.10 crores, a growth of 26%. The quarter just concluded was one where the NBFC, HFC sector witnessed an unprecedented liquidity squeeze of a magnitude not seen in the recent past.

Several initiatives taken by the government regulators have helped stabilize the situation to some extent. The company however has not faced any adversity and has accessed all types of fundings, avenues throughout the period under review. On the business front we have disbursed Rs. 12,778 crores which shows a growth of about 4%.



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Overall we have seen good growth from some locations in central, eastern and some part of western and southeastern regions. In the home loan segment, the company disbursed Rs. 9,177 crores, a growth of about 3%. Disbursements in individual non-home loans segment was flat at about Rs. 2,400 crores whereas the builder loan segment the disbursements were Rs. 1,238 crores, a growth of about 28%.

During the quarter we have been very selective in taking exposure and we believe the current environment will allow long term players like us to improve on our market share. To that end during the quarter we have received proposals for portfolio buyouts, takeovers and are evaluating the same based on various parameters like quality and valuations.

Our overall disbursements for nine months continue to record a 15% Year-on-Year growth which is in line with our projected growth for the year. On the affordable housing front and the PMAY-CLSS schemes the company continues to do well. During the third quarter the company recorded a disbursement of nearly 8,500 accounts as against 6,000 accounts in the corresponding period of the previous year.

In value terms the disbursement in this segment was Rs. 1,646 crores against about Rs. 1,000 crores for the corresponding quarter. As a share of incremental disbursements in the retail segment it works out to be 17% in number and 14% in value terms. On the portfolio growth front the total portfolio recorded a growth of 16.34%, the highest in several quarters.

Pursuant to the introduction of IND-AS the companies are required to report expected credit loss on their loan assets and provisions thereof. In terms of asset quality as mentioned earlier in line with the IND-AS the company has transitioned to the ECL model based on the exposure at default. The loss provisions are in line with the historical loss rates of the company which is one of the lowest in the industry.

This quarter there is a net reversal in the ECL provisions to the tune of Rs. 3.14 crores for nine months the total ECL provisions reduced from Rs. 407 crores to Rs. 247 crores. The asset quality has remained stable with stage 3 exposure at default at 1.25% marginally down from 1.27% as on September 2018.

On the cost of funds side though there has been a sharp increase in the interest rates in the system following the liquidity squeeze we were able to contain the increase in the cost of funds to a considerable extent. During the quarter the weighted average cost of funds has increased by about 15 basis points. However we have been able to offset the increase by passing on the hikes.

During the quarter the company hiked its PLR by 20 basis points making it total 70 basis points PLR hike during the current fiscal. The overall spreads have as a result shown a Year-on-Year increase of 15 basis points and a sequential increase of 6 basis points.



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During the quarter we have also completed recruitment of nearly 300 employees to augment our human resources.

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

**Moderator:** Thank you. We will now begin the question-and-answer session.

The first question is from the line of Shubhramshu Mishra from Motilal Oswal Securities Limited. Please go ahead.

**Shubhramshu Mishra:** I wanted to understand the movement of NPAs in the corporate books, it has decreased on a QoQ basis so if you could tell me the slippages and the recoveries?

**Vinay Sah:** Yes, we have experienced some reduction in it. There has been recoveries in five, six small accounts.

**Shubhramshu Mishra:** What is the amount for that, sir?

**Vinay Sah:** That would be about Rs. 60 crores or so.

**Shubhramshu Mishra:** And any slippages?

**Vinay Sah:** No.

**Shubhramshu Mishra:** Right sir. And we have noticed the disbursement for builders going up, so one is that I want to understand the outstanding number of accounts that you have in the builder portfolio and the number of deals that we did in this particular quarter and nine months of this year?

**Vinay Sah:** Total number of accounts that we are servicing is about 256 or so. During the year nine months we have added about 38 accounts. Quarter would be about six or seven. Quarter actually we are showing some growth in the project but it is very less as compared to Q2.

**Shubhramshu Mishra:** Right. And if we have to qualify these additions in third quarter sir are these coming from other HFC banks where are these portfolio takeovers coming from?

**Vinay Sah:** Only two, three.

**Shubhramshu Mishra:** Okay which are coming from large HFCs?

**Vinay Sah:** Yes, as I said in this thing we have been very cautious actually. Whatever the general feeling in the market is that there is a huge opportunity for LIC HFL also to take over, but some of the evaluations that we did in this quarter they were very risky things which we were not, as it is we



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were not doing earlier also. And we have not taken over any of the risky ones which we felt were risky as per our underwriting norms.

**Shubhanshu Mishra:** Right sir, and just a book keeping question sir, if you could repeat the disbursement mix for home loans, LAP and builder loans?

**Vinay Sah:** Total disbursements were Rs. 12,778 crores, home loans was Rs. 9,170 crores, developer was Rs. 1,238 crores. And this home loan of course includes about Rs. 1,238 crores. That is separate of course. Rs. 9,170 crores are home loan, and Rs. 1,238 crores is this.

**Moderator:** Thank you. The next question is from the line of Jignesh Shial from Emkay Global. Please go ahead.

**Jignesh Shial:** You see there has been a decline in ECL provision. Can you give me the number of ECL provision please?

**Sudipto Sil:** Yes, see if you see, this is Sudipto here. ECL provision for the quarter there is a reversal. The reversal is 3.14, and if you see for the nine months there has been a decline from Rs. 406.99 crores in the nine months of the previous year as compared to that it is Rs. 247 crores this year.

**Jignesh Shial:** Okay and any reason for the reversal would be what?

**Sudipto Sil:** Actually if you look at it the ECL provision of the previous year is actually based upon the delinquency at that point in time and after that there were a couple of accounts where we have received some resolution so to that extent it will not be required.

**Jignesh Shial:** Okay understood. And moving towards your liability franchise, so have you been what will be have you done any getting refinance from the NHB, will there be any incremental coming out from there or the things the similar phase what it had been earlier? Just little detail on your liability breakup?

**Sudipto Sil:** On the liability front in the third quarter we have raised almost Rs. 20,000 crores in terms of non-convertible debentures of various channels and we have also raised commercial papers. This is almost for the quarter is little less than Rs. 9,000 crores and the retail deposit will be around Rs. 1,000 crores. Apart from that we have raised money from the banks line of credit as well as term loans from banks we have withdrawn and as far as the NHB refinance is concerned there is an application which is I would say almost been approved, so that will come within a couple of days.

**Jignesh Shial:** Okay in this Rs. 20,000 crores NCD what will be the cost?



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- Sudipto Sil:** See the cost was average cost was a little less than 9% because most of the high cost funds which we had raised in the first few weeks of October were in excess of 9%. Today the same rates would have come down by almost 50 points, at least 40 basis points.
- Jignesh Shial:** Okay understood. And what will be the movement on yields I mean has there been any hikes even during the last quarter or how is it on your lending side I am saying?
- Sudipto Sil:** On the lending side, October we had increased the rates on the retail home loans by 10 basis points. Then again 1<sup>st</sup> January we have increased on the retail side by 10 basis points that is the home loans by 10 basis points and on the builder loans as well as on the non-home loans that is the LRD lap we have increased by 20 basis points. So for this financial year the total increases on the retail individual home loan book which is till now almost 80% of the book that total increases have been to the tune of 70 basis points.
- Moderator:** Thank you. The next question is from the line of Aakash Jathani from HDFC Securities. Please go ahead.
- Aakash Jathani:** My first question is on the developer book. So given the current developments how do you see the developed book in terms of is there any stress that is building up? I know that you have done about five to six recoveries as you said but what is your sense on this?
- Vinay Sah:** No, overall I mean I have been following up reviewing each in fact each and every big or small developer loans very closely especially with the view to whatever was the liquidity position squeeze during Q3. And going further ahead we would not want to also and currently we are not expecting also any of the big accounts going into default.
- Aakash Jathani:** Okay. And my second question is on competition in both the individual loan and LAP space, the home loan and LAP space, so how do you see it from other HFCs, PFCs and banks?
- Vinay Sah:** Nothing has changed much I would say even in Q3 because home loan front we have been getting most of our growth better growth from Tier 2, Tier 3 cities and Central Eastern some parts of South Eastern parts of the country. And there the competition level has been the same level. For LAP and other things probably if we see rate wise also the HFCs are placed at par so competition wise I mean it is at the same level.
- Banks of course have been more active especially in Q3. One factor which would interest you is that especially in Q3 our number of cases, amount of cases which were taken over by other HFCs it went down by 25% and overall for the year also it has gone down by about 18%.
- Aakash Jathani:** Which number?
- Vinay Sah:** Balance transfer, yes.



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- Moderator:** Thank you. The next question is from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** Just need a few data points if you can share with me. Sir, what is the incremental yield on assets currently? Incremental cost of funds both, sir?
- Sudipto Sil:** See incremental cost of fund for the nine months is 8.38% and for the first nine months the incremental yield on the assets is 9.95% annualized.
- Bunty Chawla:** It is for nine months you are saying, right?
- Sudipto Sil:** I am saying for 9 months, yes.
- Bunty Chawla:** And sir can you share there has been a slightly increase in the gross NPA levels on the individual part. Is it something can you share on that on a QoQ basis sequentially?
- Vinay Sah:** Gross NPA has gone up but the contribution has by and large come from the retail this thing and we are confident that it will be curbed. No actually specific trends or nothing was observed that it is coming from a particular area or a particular segment something like that. The project has not contributed to it.
- Bunty Chawla:** Right. Sir, lastly and now it seems to be liquidity is slightly better currently in this quarter. So what will be the approach because we have seen some cautious approach in terms of disbursement on the individual portfolio in Q3? What will be the sense in Q4 for the similar?
- Vinay Sah:** We have been cautious when I made the statement it was especially with regard to the takeovers that we were being approached for. Otherwise whatever we were doing it depending on our SOP our underwriting standards our due diligence, we will continue disbursement at the same level.
- Moderator:** Thank you. The next question is from the line of Anirban Sarkar from Principal Asset Management. Please go ahead.
- Anirban Sarkar:** I have three questions. First I see this line item called that gain on de-recognition of financial instruments under amortized cost category. If you could just help me understand what exactly this refers to de-recognition of financial instruments? That is the first one. The second one is that in your notes to accounts I see in the second point you have said that there is a loss amount of modification of loans amounting to Rs. 15 crores of 9M FY19 and around Rs. 160 crores for 9M FY18.
- So is this amount for 9M FY18 included only in the third quarter number or has they have been recognized across the nine-month period? That is the second question. And the third question is regarding a sharp increase in the proportion of floating rates loans on your book from 82% to 93% in the third quarter. So is this because of conversion of fixed to floating rate loans which



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were given three years back and if yes, then what proportion of such loans still remains on your balance sheet?

**Vinay Sah:**

So we will start from reverse order. Regarding the fixed to floating composition as of now most of the off take which is happening is happening on the floating rate side. We do have products on the fixed and semi fixed but most of the preference is towards the floating rate side so I mean almost entirely you can say whatever new business is getting originated is happening on the floating rate side. So that is the composition.

**Anirban Sarkar:**

I got that part. What I was meaning to ask is that what proportion of these loans still remains?

**Vinay Sah:**

I am completing it. So a very small portion of the conversion is left almost I would say it is almost not there. It will be less than a couple of percentages. Because whatever those convertible loans we had given earlier, the fixed to floating converted loans we had stopped distributing those loans about three years back. So whatever was the residual I think not even couple of percentage will be there for this.

Now coming to your other query regarding that few changes and few new line items which you would have seen in this quarter as also in the couple of last quarters it is because of the transition from the Indian GAAP to the Ind-AS. Now as per the Ind-AS all loans all home loans or any kind of loans will be treated as a financial instrument and whenever any of the terms and conditions of those financial instruments are changing, that gain or loss whatever has to be appropriated in that particular quarter in which the change would have happened for the balance period of the loan.

For example, and this is actually more in terms when the rate of interest had been going down. If you recollect in the last calendar year of 2017, there was a huge reduction in the lending rates following a lot of rewriting request that we received from customers, because obviously there was a lot of I would say the interest rate trajectory was downward going. So when that had happened the loans were rewritten to a lower rate of interest. As per the Ind-AS one will have to actually account for the reduction in the earnings on that financial instruments for the balance part of the life of that loan.

And it has to be taken in the quarter in which it will be taken. So most of it would have happened in the end of Q2 or Q3 for which that accounting had to be done in the previous year's corresponding quarters. So that is the genesis of this particular line item. And then coming to the other question that you had regarding the de-recognition of financial instruments see here under amortized cost category see under the Ind-AS what happens that earlier there were certain costs and incomes which we were accounting in the year of receipt.

The incomes were processing fee which we were collecting from our customers in the year of receipt it would be accounted and similarly whatever in expenses we would have incurred for





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originating these loans and which can be directly attributable to these specific loans like for example commission paid to the intermediaries or agents for originating the loans. So those earlier were accounted in the year of receipt.

Under the Ind-AS that has to be amortized. So as and when those loans get prepaid or closed the unamortized part the one which is amortized but not yet accounted for will have to be taken in that particular line item. So these are the changes which have been required because of the transition from the Indian GAAP to the Ind-AS and probably one would expect that over the next one quarter, once the full four quarter results and the Ind-AS have been rolled out next year the numbers will be I think much, much more smooth and more comparable.

**Anirban Sarkar:** Sure sir, thank you for the explanation. Just on the part about the modification of loans where the amount was Rs. 159.70 crores for the nine-month period so has it been recognized across the nine-month period or has it been recognized in the third quarter?

**Vinay Sah:** It is nine months actually for the full nine months it has been impacted. This was a new requirement of the accounting standards.

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

**Kunal Shah:** So firstly in terms of the increase in NPLs on the individual category was it from LAP as such and how has the LAP portfolio behaved within the overall individual price in terms of asset quality?

**Vinay Sah:** No, as I said before also, the rise is basically home loans also, LAP also the levels are around the same. It is slightly higher than the home loans but increase is not only due to LAP. Even the home loan portfolio has also contributed to that.

**Kunal Shah:** So what is that 0.93 so how do we break between the home loan and the LAP currently and compared to Q2?

**Vinay Sah:** See actually the 93 is on the entire retail piece, but if you de-segregate it the individual home loans and the non-home loans it will be around say 0.8%, 0.7% so it is almost 0.8% for the home loan piece the individual home loan piece and probably to that extent the non-home loan piece will be slightly more than 0.93% because the weightage for the home loans is much, much greater.

**Kunal Shah:** Yes, and how was this in Q2?

**Vinay Sah:** Q2 also proportionately **(Inaudible 27:47)** but it has been same.

**Kunal Shah:** Okay so maybe 11 BPS, 12 BPS increase that is coming both in home loans as well as maybe something. And in terms of incremental costs so you highlighted for the nine months but the



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way you look at it in terms of the incremental cost what is it and in terms of the mix of the borrowing what we look today in terms of NCDs, banks and all, so how do we see the proportion changing?

**Vinay Sah:**

See actually if you look at it for the first half for the first six months that is April to September because of certain I would say regulatory changes on the bond market electronic bidding system, the bond issuances were almost nil. Actually, it was not there. But from 1<sup>st</sup> of October the bond issuances have been quite strong and despite the tightness in the overall market we have been continuously issuing bonds of every single teller and at benchmark prices literally. So that portion of the borrowing will continue even in Q4. In Q4 we will probably also look at more in the retail deposit side.

As far as the commercial paper is concerned, you would recollect that in the second quarter earnings call we had said that at that point in time the commercial papers were 9.2% of the total liabilities and we had given a very clear guidance that by December we will bring it to around 5% level, and as of now it is exactly 5%.

So there is a specific headroom available there also and we have not faced any issues in raising money from any of these markets. Additionally, we are also exploring some other avenues for example we are working on an external commercial borrowing with some of the banks. So if the pricing etcetera fits in, we might also go in for that in the next quarter or in current in Q4 or in the first quarter of the next year.

**Kunal Shah:**

Okay and between bonds and banks how are the rates today incremental borrowing cost?

**Vinay Sah:**

See we are still receiving money from the banks at PLR plus MCLR plus 0 spread. So that continues and average if you look at it the banks MCLR will be in the ballpark of around 8.4 to 8.5, in terms of bond markets NCDs at the shorter end about ten days back we had done a short term issuance at around 8.5% coupon.

That was about a two-year paper, we have done a ten-year paper after that around 8.75 or 8.8 so I would believe that the yield curve will remain within that range. That is as far as the NCDs are concerned. Shorter end the cost of fund has come down significantly in the early parts of January we had done some commercial papers for about two-and-a-half, three months which we had raised at less than 7% or 6.85%.

**Kunal Shah:**

Okay, sir and in terms of margins given cost is coming down and we have raised the rates as well, so are we expecting the improvement and where should we see it settling down now?

**Vinay Sah:**

See margin improvement if you look at on the spread side, there has been a sequential improvement of 6 basis points year-on-year, 15 basis points improvement has been there on



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spreads. And the trajectory certainly points towards improvement and it is also reflected by the fact that net interest income growth has been fairly healthy in the third quarter.

**Kunal Shah:** And lastly in terms of this resolution on the corporate account, does the current real estate environment delays the further resolution and may be when we were expecting the recovery so obviously it is delayed a bit, but were we nearing or maybe in a very advanced stage and now maybe because of the environment it might not happen for another quarter or a two?

**Vinay Sah:** Actually for us in one of our major accounts where we were expecting recovery it is not held up or getting delayed because of the environment. It has got into a legal tangle and other than that it is okay, I mean resolutions I have not been affected by this for our company at least.

**Sudipto Sil:** See the resolution takes time because of the legality and all that associated challenges it takes time but the underlying security still I would say is I mean the value has not depreciated on the underlying security rather I would say that probably the value of the security underlying has increased or appreciated and it actually is borne out by the fact that in the one resolution that we have been able to do, just a couple of quarters back, we had been able to recover not only the full principal but also a good portion of the interest.

**Moderator:** Thank you. The next question is from the line of Abhijit Tibrewal from ICICI Securities. Please go ahead.

**Abhijit Tibrewal:** I had a couple of questions. So firstly I missed your opening remarks. When was the last 20 bps hike in lending rates affected was it last quarter or this month?

**Vinay Sah:** No, see current fiscal for nine-month period ending 31<sup>st</sup> December we did four rate hikes starting 1<sup>st</sup> of July so till 31<sup>st</sup> December we had done we made a hike of total of 60 basis points. So Q3 was the first quarter in which the advantage of this full 60 basis point hike the company could get. We have made another hike of 10 basis points starting 1<sup>st</sup> January. So now it is 70 basis points total during the current fiscal.

**Abhijit Tibrewal:** Okay and sir just a follow up on your ECL provisioning. If I understand right last quarter your stage 1 provisioning was around Rs. 279 crores which has come down to Rs. 4.7 crores now. Similarly Stage 2 provisioning which was Rs. 111 crores are down to Rs. 1.9 crores now. So the impression that I get is I mean stage 1, stage 2 provisioning have become insignificant now and most of it has moved to stage 3 which is why if you see there were actually no provisioning in the quarter rather a write back of Rs. 3.1 crores. So how is there such volatility from Rs. 279 crores down to Rs. 4.7 crores stage 1?

**Vinay Sah:** Yes, I will explain to you. In the second quarter that is the September quarter there was if you recollect in the call also we had mentioned that the difference between the NHB provisioning and the ECL provisioning we had not returned back to the P&L but we have retained in the



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books. That we have very clearly indicated that there was the ECL provisions were much less as compared to the provisions that we were holding on the books as per the NHB provisioning norms.

We had allocated it to each of these stages because there was no specific formula for splitting it into specific stages. Now in this quarter what we have done the same provisions we have reallocated within the three stages and obviously the bulk of it will naturally get into the stage 3.

**Abhijit Tibrewal:** And just a follow up on that as well, while stage 1 and stage 2 are Rs. 4.7 crores and Rs. 1.9 crores respectively translating into 2 bps is that the level of provisions that we need for stage 1 and stage 2?

**Vinay Sah:** See actually that is something which has been arrived here after utilizing the formula that formula has driven this result. So we have applied that actually. The model we have applied and that is the result of that model.

**Abhijit Tibrewal:** And just a few more data keeping questions so what were the yield on advances in Q3, you have already shared 9M numbers?

**Vinay Sah:** See I do not have specifically for the third quarter in terms of you want the cumulative or the incremental?

**Abhijit Tibrewal:** I want the cumulative Q3?

**Vinay Sah:** Cumulative as on 31<sup>st</sup> of December on the entire book the total the yield on the retail side was Rs. 1,025 crores and on the project were Rs. 1,345 crores.

**Abhijit Tibrewal:** And what was the quantum of incremental borrowings in Q3?

**Vinay Sah:** Incremental borrowings as I shared with you about Rs. 20,000 crores we had borrowed from NCDs about Rs. 9,000 crores we had borrowed from commercial papers so that is about close to Rs. 29,000 crores, about Rs. 1,000 crores from public deposits and banks also we have received but we have repaid also to the banks so that will be net about say Rs. 2,000 crores to Rs. 3,000 crores.

**Abhijit Tibrewal:** So we received in the third quarter and we repaid it back is it?

**Vinay Sah:** Yes.

**Abhijit Tibrewal:** Okay and would you be able to share your net worth and balance sheet side as on December 31<sup>st</sup>?



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- Vinay Sah:** Total assets in terms of home loans was Rs. 181,698 crores but in the balance sheet this is not required to be published for the nine months and six months is the published and audited numbers which will be there on record.
- Abhijit Tibrewal:** And similarly for net worth as well?
- Vinay Sah:** Yes.
- Abhijit Tibrewal:** Okay alright and just one last thing. This quarter again you have published the spread between your interest income on individual loans and project loans. Will you be able to give the same split for the last quarter?
- Vinay Sah:** Yes, I think I should be able to give that to you as well. You want for the September quarter right? Otherwise we will share it with you separately.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** What would be the lowest home loan rate that we have given to our customer?
- Vinay Sah:** When?
- Digant Haria:** Recently.
- Vinay Sah:** During quarter it was lowest means I mean as per the published rates only it is 8.80 during Q2.
- Digant Haria:** And sir one more question is when we will start our accelerating our disbursement from Rs. 9,000 crores that we have in our individual home loan?
- Vinay Sah:** I did not get your point?
- Digant Haria:** The home loan disbursement in the home loan that has been for Rs. 9,000 crores for last couple of quarters. So when will we start accelerating that figure?
- Vinay Sah:** We would like to take it much higher but home loan as it is the growth rates that we are experiencing from the two, three big metros is very muted and for some of the quarters like Q4 quarter usually this Rs. 9,000 crores goes up substantially. Substantially I mean say maybe Rs. 12,000 crores or something. So this Q4 we should be able to do Rs. 11,000 crores, Rs. 12,000 crores.
- Moderator:** Thank you. The next question is from the line of Preethi from UTI Mutual Fund. Please go ahead.



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**Preethi:** So my question is on the asset quality. So if we see our NPAs it has almost tripled since March '17 and of course on a low pace but we have seen this trend sustaining for three quarters now. So that rules out any seasonality factor. And if we see our self-employed share has also come down to 14%, and we have not observed this trend especially in the salaried class in any other NBFC.

So is there any specific to LIC or especially with respect to the Central or State government employees and also the question applies to LAP as well because our past interactions have suggested that this is a very safe LAP and some 12 lakhs ticket size and very low LTV. So why are we observing this trend and why is it in an isolated manner?

**Vinay Sah:** No, two points I would like to make. Number 1, is that yes it has gone up, no two opinions about it. But it is not as I said earlier also it is not specific to an area or a segment like that. We have in fact improved upon our recovery mechanism and also the reviews have been more the regional meets have been called for how we are monitoring people also but still it is going on and still we expect that probably Q4 we may see a reversal of things. The non-home segment also is the ratio for that segment is higher than the home loan segment and together they are giving me a ratio of 0.93% as on 31<sup>st</sup> of December.

**Preethi:** Sir, but what do you attribute this to, was it like there was some slip off in the underwriting process that we followed in last three years and how should we see this?

**Vinay Sah:** No it is not that. I cannot say that there is some problem of job generation or job continuation or something like that, that we are not attributing this to anything of that sort. But the fact remains of course that still in our salaried class also those delinquencies have not been that high that much but as compared to previous levels they have gone up. It can be in some cases because of some temporary financial problems it is more like a case of a delayed payment.

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

**Piran Engineer:** I just want a couple of clarifications. You mentioned you raised Rs. 20,000 crores via NCDs and Rs. 9,000 crores via CP that is for third quarter or for nine months?

**Vinay Sah:** That is for third quarter.

**Piran Engineer:** In that case what is the sort of liquidity you are sitting on the balance sheet because on an average your repayments of borrowings are Rs. 7,000 crores a quarter, and your loan book has increased Rs. 5,000 crores sequentially so are you sitting on excess liquidity of some Rs. 20,000 crores or so?



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- Vinay Sah:** No, that is not the number it is actually a small fraction of that number because what we have used is that we have utilized those borrowings to actually detach some of the bank loans that we had taken.
- Piran Engineer:** Fair enough so how much of your borrowings would you have repaid in this quarter?
- Vinay Sah:** See borrowings that we have repaid during the quarter will be around Rs. 15,000 crores to Rs. 18,000 crores.
- Piran Engineer:** Okay that much. And the second thing is on your builder loan. How much is to like the corporate balance sheet and how much is to project?
- Vinay Sah:** Mostly I would say corporate balance sheet we do not lend as in term loan. It is only to SPV level which is construction linked finance.
- Piran Engineer:** Okay and how much of it is residential versus commercial?
- Vinay Sah:** 95% will be residential, 94.6% to be exact.
- Moderator:** Thank you. The next question is from the line of Amit Nanawati from Nomura Securities. Please go ahead.
- Amit Nanawati:** Just wanted to check on the modification adjustments again. What you explained was basically with the correction in interest rates you effectively it is an NPV hit that you would have taken in the base last year. Would that also mean that you know this quarter this year with increasing rates and plus the benefits also flowing through of that NPV loss the margins to that extent would be overstated? Is it a fair thing to think?
- Vinay Sah:** Unfortunately, no because of principle of conservatism says that you factor in for all possible dilutions and losses but do not take credit of any gains.
- Amit Nanawati:** Okay but as you increase the rates so you are getting the actual realized increase and you took the negative impact in the base itself right so otherwise you would have had an offsetting force in this quarter of some correction in rates and then recent hikes in rates.
- Vinay Sah:** No, you have to only, if it is a negative or is a decline in the future earnings of a particular instrument that has to be factored in, that has to be accounted for.
- Amit Nanawati:** And what happens if you increase rates afterwards?
- Vinay Sah:** Really does not. See actually you have to understand that where a PLR movement it is a contractual right so it is in the contract itself that when rates go up the PLR can go up. If the rates come down it will come down. But when there is a rewriting which happens it is actually



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when the customers come forth and he says that he wants a low rate of interest otherwise he will exit. So it is not within the contractual increase or decreases. So that has to be specifically factored and no customer will come and say that please increase my rates.

**Amit Nanawati:** Correct, but you would be increasing rates any which ways, right?

**Vinay Sah:** No, but that is as per the contract of PLR?

**Amit Nanawati:** And secondly so the builder NPA is down by Rs. 200 crores mentioned that there has been Rs. 60 crores of recovery. What is the balance which led to reduction and what is the interest recognition which would have happened during the quarter?

**Vinay Sah:** Rs. 200 crores is not the number. Rs. 763 crores to Rs. 703 crores.

**Amit Nanawati:** Okay then it would not be large anyway?

**Vinay Sah:** Yes.

**Moderator:** Thank you. The next question is from the line of Bhaskar Basu from Jefferies India Limited. Please go ahead.

**Bhaskar Basu:** Couple of questions. So firstly on the loan growth, so as I think someone earlier asked loan growth has been muted so far and even this quarter you have attributed it to prudence. But going forward in the current environment how do you really see your disbursements moving? Are you likely to see any benefit from some of the HFCs kind of facing issues and how do you think about it?

**Vinay Sah:** Now going forward Q3 as I said before also we are targeting working hard to show a loan growth for Q4 in the range of about 15%. This would be very high and really challenging looking to the fact that last year Q4 was a period where we showed a very high growth rate and the volumes were also large. As far as taking benefits from conditions of some of the HFCs, as I said before also the market perception that they are not disbursing is not correct.

They are not disbursing the riskier segments that they were entering into earlier so that segment is open. But we were not there in that segment earlier also and now also we will not venture into the riskier segments. We are concentrating on big volumes and big growth rates in the home loan segment per se and especially tier 2 and tier 3 cities.

**Bhaskar Basu:** But even within home loans your growth really has been muted. And I understand about the next quarter but on a 12 months how do you think about it and also in terms of mix now that the perceived risk obviously of the project loans have gone up, so how do you think about your mix going forward?





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**Vinay Sah:** The home loan segment if I see for the nine months' period the growth rate is in the range of about 8% to 9%. In the home loan segment, we have been concentrating and showing good growth as far as the affordable segment goes. Last year for the year we had disbursed about 22,000 numbers of loans. Current year as on December only we have crossed 23,000 numbers. And amount wise also last year the affordable segment had the share of about 7% overall.

Currently as on 31<sup>st</sup> December the amount wise share is about 14%. The mix as you asked project loans last year, yearend we had ended it around 5% share of project loans, currently it is at 6%. Going ahead also we do not intend to raise it take it much higher. I feel that it will end at around the same percentage as on 31<sup>st</sup> March.

**Bhaskar Basu:** Okay. Second question is on the slippages which we have seen. Is there any vintage, what could be the vintage of these loans which are slipping or is there any specific trend around that, are these recent loans, these are older loans?

**Vinay Sah:** No, see of late no big additions have come to this thing, whatever are there they are about 3 years, 4 years, 5-year-old loans which are already there so we have not observed any trend as such.

**Bhaskar Basu:** No I mean the slippages which we saw in the retail portfolio in this quarter, yes I am referring to that, so are they I mean what would be the vintage of these loans? Are these loans which you kind of disbursed over the last 12 months or 24 months?

**Vinay Sah:** No, they are all two to three years.

**Bhaskar Basu:** Okay. Any reason you could attribute to that?

**Vinay Sah:** we are seeing I mean as I said before also a very regular follow-up is there, it is more of a delayed payment sort of a thing.

**Bhaskar Basu:** Okay and my final question is on this net loss on de-recognition of financial instrument. Now as you have explained that whenever basically the lending rates were kind of reset lower you had to take the loss. But even this year I would understand that is the case last year when generally you were lowering the loan rates. But even in this quarter there is almost like Rs. 135 crores. I would not think you would have written down any loans I mean basically reset any loans lower lending rates lower during the quarter. So what explains a similar number this quarter?

**Vinay Sah:** The similar number is Rs. 14 crores, it is there in note number 2.

**Bhaskar Basu:** No, if I look at the P&L, yes it is about Rs. 14 crores versus same as Rs. 14 crores last year as well, so it is almost the same number?

**Vinay Sah:** It is Rs. 14 crores only.



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- Bhaskar Basu:** Yes, Rs. 14 crores but it is same as last year as well, so while last year you would have kind of reset loans?
- Vinay Sah:** There are still some request but the request in terms if you look at it for the nine months the number has come down significantly. For nine months the number from Rs. 160 crores have come down to Rs. 14 crores or Rs. 15 crores. So that actually there are still some loans which have been at higher levels especially in some of the very good builder loan cases so there have been some requests which we have acceded to.
- Bhaskar Basu:** No, sorry in fact the number is Rs. 135 crores is it not for this quarter?
- Vinay Sah:** No, it is Rs. 14 crores. If you see the note number 2 I think we can discuss it separately because if you see the note number 2 it is very clearly Rs. 14.93 crores as against Rs. 159.72 crores.
- Bhaskar Basu:** No, I am just referring to the SEBI release wherein in P&L you have this net loss on de-recognition of financial instrument under amortize cost category?
- Vinay Sah:** Yes.
- Bhaskar Basu:** So there is this Rs. 135.6 crore number there?
- Vinay Sah:** Yes, that is I think part of the provisioning also which was there because of the ECL changes as I mentioned there are some ECL changes which have happened between the second quarter and third quarter so that is what is reflected here.
- Bhaskar Basu:** And minus Rs. 3.14 crores is basically what you had?
- Vinay Sah:** Incremental.
- Bhaskar Basu:** Okay so this is not pertaining to the loan reset as such?
- Vinay Sah:** No, that is there in the note number 2, Bhaskar. And you will find it in the initial statement also.
- Moderator:** Thank you. The next question is from the line of Abhishek Modi from Asset Mehta. Please go ahead.
- Abhishek Modi:** My question is regarding NIMs. NIMs have been dropping a bit so any idea with regard to that?
- Vinay Sah:** Yes, sorry can you please repeat yourself, I missed it?
- Abhishek Modi:** Yes, Abhishek here, the NIMs the net interest margin have been dipping. So any idea because I think they were 2.58 year over now it is 2.33.



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**Vinay Sah:** Yes, I will share with you. See actually NIMs because of the changes in the income recognition pursuant to the Ind-AS so year-on-year comparison may not be actually accurate but if you look at sequentially, sequentially for the first quarter it was around 2.33 if I am not mistaken which increased to 2.35. Now it is 2.33. Now if you look at between the first and the third quarter the loan book growth which was in the range of 15%, 15.5% has actually gone up to 16.4%.

So though there is a fairly healthy increase in the net interest income it is not getting reflected in the net interest margins because the asset growth has been higher as compared to the earlier quarters. In fact, the asset growth is highest in almost three years. So that is the reason why the NIMs is not reflecting, but if you actually look at the reported spreads, you will find that there is a fairly healthy increase on a year-on-year spreads by 15 basis points and also on a sequential basis by 6 basis points. So I think one has to look into all these three things together.

**Abhishek Modi:** Okay thanks. The second question is a part might have been answered was regarding the retails. I think if I am right the majority of your loan portfolio is retail, correct sir? But with regard I think somebody had asked that the NPAs in spite of being retail the gross non-performing asset increased, now is it because self-employed the sector category retails have been non-performing or the other? What is the exact?

**Vinay Sah:** Yes, I think we have replied this some two, three times during the call, but actually there is no specific trends vis-à-vis employment or geography.

**Abhishek Modi:** Okay. No but why this general basic?

**Vinay Sah:** see more it is in the nature of some delay rather than a hard core chronic delinquency.

**Abhishek Modi:** Sorry I did not get you?

**Vinay Sah:** Delayed rather than a hard core chronic delinquency.

**Abhishek Modi:** Delay in payments you are telling?

**Vinay Sah:** Yes.

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

**Nischint Chawathe:** This pertains to this net loss on modification of loans. I am just curious how does this really fit in the balance sheet and what would be the accumulated amount as on date?

**Vinay Sah:** See net loss on the, you are referring to that note number 2, right?



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**Nischint Chawathe:** Yes, so I am saying that I understand what you did last year and there was some impact this year as well, so I am just saying that this is kind of more of a notional entry so?

**Vinay Sah:** It is a notional entry you are right on that. It is basically notional entry because it is basically required because of the Ind-AS norms only.

**Nischint Chawathe:** So how does it sit on the balance sheet? And what will be the accumulated amount on this?

**Vinay Sah:** Accumulated amount I would believe that most of the going by the actual loan behavior majority of the rewriting pressure was eased by the first nine months itself. A small residual will be there for the fourth quarter.

**Nischint Chawathe:** No, what I am trying to say is that how much amount of this would be sitting on the balance sheet right?

**Vinay Sah:** See it is not a balance sheet entry per se. It is not going to be a balance sheet entry per se. It is actually a notional kind of a recasting. If you look at in the Ind-AS reconciliation if you look at it, look at the reconciliation which is provided in the table, so that will give you the net impact of it. So only the balance the net of the opening and the closing will reflect in the balance sheet.

**Nischint Chawathe:** So your opening net worth would also be lower I mean this is obviously for the quarter but your opening net worth would also be lower to that extent because of this?

**Vinay Sah:** Yes.

**Nischint Chawathe:** And any quantum you can share as to how much?

**Vinay Sah:** Right now we do not have a quantum to share but this is the nine months' figure which has been there.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would like to hand the conference over to the management for closing comments.

**Vinay Sah:** Thank you everyone for participating. We are now looking forward to a good Q4 ahead. We are concentrating on good disbursements especially in the home loan segment and there also we will be concentrating more on growth on the affordable housing front. The second points under consideration and action is the reduction in GNPA's during Q4. As was said during the conference also we are not and we will not be very aggressive in the project loan takeovers in Q4 also. At the end of the year we are looking forward to portfolio growth in excess of 16%.

The income levels should also continue to grow at the same level because as I said we have done a 10 basis point hike in PLR as on 1 January 2019 also taking it to a total of 70 bps hike during the current fiscal which should help us in improving our income also. And consequently because



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we have currently flowing assets in excess of about 80% that should also help us in getting more income.

Thank you, friends. Thank you for joining the conference call.

**Moderator:**

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