



“LIC Housing Finance Ltd Q4 FY 2016 Results Conference Call”

April 20, 2016



ANALYST: MR. PRAVEEN AGARWAL- AXIS CAPITAL

**MANAGEMENT: MS. SUNITA SHARMA - MANAGING DIRECTOR AND CHIEF
EXECUTIVE OFFICER - LIC HOUSING FINANCE LIMITED
MR SUDIPTO SIL**



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Moderator: Good morning ladies and gentleman. Welcome to the LIC Housing Finance Limited Q4 FY 2016 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you and over to you Sir.

Praveen Agarwal: Thank you Lizann. Good morning everybody and welcome to this conference call of LIC Housing Finance to discuss the Q4 results. We have with us Ms. Sunita Sharma, MD&CEO and Mr. Sudipto Sil. I would request Ms. Sharma to give us a small brief of the financial highlights for this quarter post which we will take the Q&A. Over to you madam.

Sunita Sharma: Thank you Praveen and good morning to you all. At the outset, let me welcome all of you to today's media briefing post the quarterly results of LIC HFL. As you are aware, LIC HFL declared its fourth quarter Q4 FY 2016 results on Monday. The key highlights of the results are as follows. Income from operations is at Rs.3246 Crores, up by 15%. Net interest income at Rs. 821 Crores, up by 26%, profit after tax Rs. 448 Crores, up by 18.46%, loan disbursal up by 33% at 13,216 Crores, loan portfolio crosses the 1.25 lakh Crore is now at 1,25,173 Crores, up by 15.52%. **(Inaudible) 1.55** loan portfolio now at Rs. 1,21,731 Crores registering a growth of 15.24%. Net interest margin for this quarter was 2.71% as against 2.47% as on Q4 FY 2015 and 2.58% as on Q3 FY 2016. Gross NPA at 0.45% against 0.46% a year back and 0.58% third quarter of this year. Fixed loans are down to 0.20% from 0.24% as on March 31, 2015 and 0.33% in the third quarter of the current year. Board recommends a dividend of 275% against 250% previous year that is Rs. 5.50 per share gain, Rs.5 per share previous year. During the fourth quarter we continued building up on the good efforts that we had put on the marketing side throughout the year which showed 33% growth including developer sites, you would recollect that a couple of years back, we had identified as an interim strategy to shore up loans in the high margin segment pending revival in the developer segment and general environment. We are happy to share that the strategy has delivered the desired results. We are also seeing some improvement in the core retail growth increasing in the fourth quarter. Geographically, across various segments, we have seen good growth in Western, Central, Northern, and Eastern parts of the country. The Southern market which was affected by floods in Chennai in December has also shown improvement, did quite well in to Q4 too. On the margins front, we have been able to improve both years on year as well as sequentially. Margins grew 24 bps year on year and 13 bps sequentially 2.71%, the best in 19 quarters. A better asset mix strategy initiated a couple of years back along with improvement in the cost of funds have helped achieve this feat. We have seen some further reduction in the cost of borrowings in the last couple of weeks which would work positively for the margins going forward. Asset quality, an area of strength, continues to be one of the very best in the industry. Gross NPA have come down year-on-year and now stands at

0.45% whereas net NPA stands at 0.22%. In this retail category, the gross NPAs are now 0.20% down from 0.24% a year back. To sum up, it has been a good all round performance, consistent improvement in loan growth, margins and asset quality have ensured that 2016 marks one of the best performances of the company and a great launching pad for FY 2017. I will now take questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Digant Hariya from Antique Stock Broking, please go ahead.

Digant Hariya: Hello madam, congratulations on a good set of numbers, just wanted to understand that this margin expansion that we are seeing what portion of that is coming out of the lower borrowing cost, what is coming out of the LAP portfolio that we are building?

Sunita Sharma: You can say that it was a double edged strategy; we thought that the things we should work, product mix as well as the borrowing mix. I think you can put 50:50 for both.

Digant Hariya: I was just looking at the breakdown of the individual loans, so individual loans overall grew at 15% but if I break it down further in to home loans and LAP the home loan piece has grown by 10% and LAP has grown by 120% kind of growth, so going ahead, what kind of growth should we expect for us in the individual home loan segment, is it 10% something that we will continue for the current year or you see better pickup there?

Sunita Sharma: I think we will target 15%.

Digant Hariya: On the LAP, now LAP has been probably the star of this 2016 for us, so if you can just elaborate a bit on where this growth is coming from, what geographies, what channels and what kind of customers are we trying to bring in?

Sunita Sharma: I think geographies are across the country. If you are talking about LAP, it is throughout the country. It is basically a function of the focus of the marketing team on the product. It is not that need is there in that product in only one particular geography or the other because marketing team is focused on that, they are able to get this market everywhere, this is one aspect and secondly what you are saying is that from which channel, channel is we have basically the agency channel, all the distribution channel which we have, we have been getting this from there and there are few specialized agency force which are working more on that, that is some big agents who are more specialized in that particular job or more educated than others, you can put it like this, some of them are big chartered accountants who are able to approach these kinds of clients better and are able to explain to them better and they have been more useful, now the segment from this LAP is coming, most of this is coming from salary segment and if you really ask me, the average loan size of the LAP business which we have is not more than 12.5 lakhs,



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and we have a differential commission structure for this product, for high margin product, we call it noncore, so because of that also many of the agents would like to focus on this product.

- Moderator:** We will take the next question from the line of Adarsh P from Nomura, please go ahead.
- Adarsh P.:** Hello, hi madam, congrats on the numbers, madam, just two questions first same question on LAP and LRD, has there been any reclassification there, that share of LAP in LRD has moved up quite significantly, have you all done any large ticket LRD there which kind of spikes the numbers or all of it is mostly LAP?
- Sunita Sharma:** First of all there is no reclassification, let me be specific about it and there are some cases which probably will be large LRD also, there will be LRD and LRD is a part of noncore, we don't call it LAP but if we say that we have got a 9% share of our business in LAP we don't say LAP, we say it noncore, LRD is part of that.
- Adarsh P.:** So, how large was the LRD contribution this quarter because otherwise the jump is just too large, so I am just trying to understand is it like a 1000-2000 Crores kind of LRD transactions that we have done?
- Sunita Sharma:** I don't think for the whole quarter it will be more than 400 Crores, total maybe, total business will be 400 Crores, 400-500 Crores in LRD.
- Adarsh P.:** Then madam, the question comes is if I exclude the LRD and assuming the rest of it is LAP we may have done 3500 odd Crores of LAP and with our ticket size of 10-12 lakhs, it means the number of loans that we have done is 35000 from say maybe 8000-10000 tickets that we would do in the last few quarters and probably 5000 in FY 2015, I am trying to understand it just looks too large and just trying to understand from a risk perspective as to how is this four times increase, this is quite a large number, so just wanted to get your perspective there?
- Sunita Sharma:** It will be risky if we had less numbers, since the numbers are more, it will be less risky, risk will get spread, risk will get mitigated, that is why we have ensured that we do it in more numbers because risk is just spread, so I do not think it is risky when the numbers are more and you have to understand also risk is contained with respect to LTV and the segmentation of the customers. If we are going to salaried customers more, definitely they are less riskier, if we are working within 24 to 25% of LTV, definitely the product is less riskier and if the assessment is done on the repayment capacity of a person at the time of taking the loan definitely it is less riskier and if the LAP is being sort of advanced to ensure that the properties, residential sites are occupied, and unencumbered definitely the risk is less.
- Adarsh P.:** Madam, can you indicate what percentage, not exact number, but ballpark what would be your own customers who have paid the home loan and you are refinancing the same, is that a very large number out of this particular LAP book you have built?



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Sunita Sharma: 50:50.

Adarsh P.: So 50% would be your own customers whose home loan has got repaid and they need some money, okay. Where does this 8.8% number go, like this 9% LAP or noncore book, because last time we mentioned 10% we wanted to reach and after that we will rethink from a risk perspective as to what we want to do, so where do you think this number goes?

Sunita Sharma: **(Inaudible) 12.38** will be possible, may be 11% we should be able to look at next year.

Adarsh P.: Madam, the second question I had was, question asked that if you exclude the growth of LAP, then the mortgage book which is the core book has grown 10% and more importantly when I try and do some numbers on disbursement the mortgage disbursement looks pretty weak for the fourth quarter and for the full year for FY 2016 and a problem has been out prepayment rates have been very high, so this combination would mean that there can be further slowdown to the individual books, so I want to get your perspective both on where your actual core mortgage disbursement growth was and secondly what are we doing to arrest the prepayment rates because that has inched up pretty significantly?

Sunita Sharma: First said, fourth quarter disbursement real growth in the mortgage section retail was more than 15%, if you are looking at the whole year yes it would have been a little less in the first three quarters but in the last quarter it has already gone up, it was the best in the year, secondly we are watching the exit and we have seen that there have been some increase in the exit, however we have grown in portfolio at 15%, so despite the exit, we have been able to give greater impetus to the growth, then the pace of increase in the exit has slowed down a bit, I am talking about the pace of exit, pace of increase in the exits are slowing a bit. Our efforts are continuing to reduce the exit, at the same time we are continuously working, continuing to work on increase our disbursement to negate the higher exits, we have not found any specific to an exit with respect to takeover. It appears that majority exits are self repayments.

Adarsh P.: Are from their own money and not from any other institution.

Sunita Sharma: No, I do not think so. Actually, it is difficult to always predict that what kind of exits will take place but we are keeping a very close watch on that and working on that and every exit when it happens our senior officers discuss with the clients. We are not letting even one case go without discussion.

Adarsh P.: Madam, the point is obviously property market is slow, it is fine for disbursements to be a little slow and you can push a little but if repayment or prepayment rates remain where it is then I think clearly the loan growth on the individual mortgage side which is 10% now will continue to slide down, and we have not seen such a spike for other players, that is the key thing that we are seeing here.



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Sunita Sharma: I don't know about other players because I have not studied them but it is definitely not been treated by the takeovers, I can only say that and there may not be prepayment, there may be just repayments because the customers would like to pay back and which other player or other people they share all the numbers with you.

Adarsh P.: No, I agree that disclosures on disbursements.

Sunita Sharma: You have to understand one thing, I don't remember your name when you told me, you did tell me, Adarsh, one thing is there, the transparency which you will encounter in LIC Housing Finance you will not get it anywhere else and to be honest with you, it helped us, why it helped us, it helps LIC Housing Finance because when you question me you are bringing to focus an issue which I will take care, you understand that.

Adarsh P.: No madam, just an observation, obviously the environment is slow from a real estate perspective, so it is very natural for the growth to come.

Sunita Sharma: I have been focusing on it earlier also. I have the same distribution channel, one distribution channel, I don't have it for LAP as a separate channel or noncore separate channel and for core a separate channel, the same person is distributing and because my focus was on noncore or on higher margin business my focus was there, so I started giving better commission days to them in that particular sector, now the same person, because he is getting better commission there is more likely to work in that area. It is not that the things will not be available in the market; it is because he chooses to distribute that product because he is getting paid better there. That is why you can see the shift, and I maintain that, I have been maintaining for the last two years that in enduser segment I do not see that there is no demand, there is less demand, demand is there in enduser segment and we focus basically on enduser segment. If we are seeing very good growth in noncore it is because we are focused on that, it is because we are focused on that, because it is what the investors wanted. It is because all of you said that there is problem on margins, so for the margins we started working on that and whenever we will feel there is a need we know how to put this.

Moderator: We will take the next question from the line of Harshad Toshniwal from ICICI Securities, please go ahead.

Harshad Toshniwal: Hello madam, congratulations on great results. What I wanted to know was just our yields are currently 10.93% and in a fall rate environment where our borrowing cost is also getting down, how do you think that will affect the yield? You will also need to be taking some price cuts in the further days, can we just get an estimate like how much further reduction in yields can we expect?

Sunita Sharma: Whenever we take a call on reduction or non reduction we always focus on margins. We look at our earnings. We look at whatever we are getting and what all we are spending, our expenses and



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income we always look at that and within four, five, six quarters our expectation towards that sense and that only every time we take a call, if we have enough margins we will definitely like to share with the customers, why we will not, because they are very precious to us and if the margins are not there, it is not business sense to part with the cuts to the customers.

Moderator: We will take the next question from the line of Siddharth Purohit from Angel Broking, please go ahead.

Siddharth Purohit: My question was pertaining to the individual loan book which has been entered, just wanted to know some, on the LAP portfolio, normally what is the LTV that you mention in the LAP portfolio and is it possible to share the yield on that?

Sunita Sharma: LTV on LAP is 25-26%. Yield will be somewhere around 11.6 to 11.9% incremental.

Moderator: We take the next question from the line of Amit Ganatra from Religare Invesco, please go ahead.

Amit Ganatra: In terms of disbursement during the year, what was the LAP book disbursement for the year?

Sunita Sharma: Somewhere between 7000-8000 Crores.

Amit Ganatra: The commission in terms of expenses seems to have gone up, so is it because the LAP has higher commission?

Sunita Sharma: Yes.

Amit Ganatra: What is the fixed rate book which is coming up for revising?

Sunita Sharma: 15000-18000 Crores.

Amit Ganatra: Is there any yield change which is expected? What was the rate at which this should have been?

Sunita Sharma: It depends on what at that time what is the PLR and what is the rate of interest at that time whenever these things come for change, we cannot predict it today, we cannot say and we do not factor it also, even if we are interested we do not factor all these things because we do not know how much of this portfolio will remain, how much will get paid back, so we do not factor all these things in interest rate calculations.

Amit Ganatra: From an organization perspective since the prepayment rates have gone up, is it a level to which, because you hire prepayment basically means lower growth obviously, so is it a level whereby you know up to which prepayment levels reach then you start focusing more on growth rather than margins or something like that, is there a trade off?



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- Sunita Sharma:** You said growth and margins, do you think we are focusing on growth only and not on margins, are you thinking like that?
- Amit Ganatra:** No I am saying this time the outcomes more have been margin driven at the expense of growth.
- Sunita Sharma:** It will always remain margin driven, from day one I have been talking about this that we will be doing stable growth with profitability, growth without profitability is never a choice for a business house, it is not possible, and it will always remain that only.
- Amit Ganatra:** So, in that sense, maybe then we should focus more on the overall advances growth for the company rather than focusing too much on individual growth whether it is individual or whether it is corporate driven, so what you are saying is that as a corporate if you are able to grow by 15% and if you are able to maintain or improve your margin then that is a job done right?
- Sunita Sharma:** That is why our project finance portfolio has grown by more than 51%, the (inaudible) 23.26 growth is more than 51%, and portfolio has grown by more than 26%. We are in a position to balance the risk, always we are working on that only.
- Amit Ganatra:** Corporate finance book, is it included in noncore or part of it?
- Sunita Sharma:** Separate
- Amit Ganatra:** So when you said that noncore should be around 11, so that means that LAP and LRD should be around 11?
- Sunita Sharma:** Yes, because it is already around 9%, we have to grow it further if not 11, at least 10% or somewhere around 10 and 11 it will come and then we also have another project finance book which is 2.7%.
- Amit Ganatra:** That should become what 5%?
- Sunita Sharma:** I look at outside market first, without that we will not go beyond and I do not want to give any number there.
- Amit Ganatra:** So basically from next one year perspective there can be a slight mix change in favour of LAP LRD.
- Sunita Sharma:** It could be in favour of project finance also, you just see, we are not able to perceive it but for the last two years we have been growing in project finance by more than 50%, it is not perceptible because it is so small, it is not that we do not have focus there, kindly bear it in mind if we start focusing on LAP and noncore whatever we are calling it, we started focusing because it was not possible for us to grow in projects, developer loan portfolio very drastically, it was not prudent

on our part to do that, so for us to show some increase in margins, we felt it was better to have a very mid risk or less than mid risk product in LAP or LRD and later on whenever we can see the market outside is doing well, we are able to at that time grow project finance portfolio.

Moderator: We will take the next question from the line of Roshan Chutkey from ICICI Prudential, please go ahead.

Roshan Chutkey: Thank you for taking my question. Madam, what kind of commission payouts are we talking out for LAP pure home loan and developer segment?

Sunita Sharma: We do not have any commission or an intermediary in the developer segment first of all and the second is that for LAP we give little less than 1% for LAP and noncore and for home loan it is 0.5 I think.

Roshan Chutkey: What kind of processing fee do you charge for the three segments?

Sunita Sharma: 1% across the board.

Roshan Chutkey: Okay, if I look at your processing fee year-on-year, it has kind of come off; have you see a reduction in processing fee for the year?

Sunita Sharma: During the year we keep on going for some campaigns for zero processing fees and all, these are all marketing things which keep on happening and they will keep on happening, so it is only that.

Roshan Chutkey: How much of the fixed rate book got repriced this last fiscal?

Sunita Sharma: 15000 Crores.

Roshan Chutkey: In those 15000 Crores how much of a migration happened with a lower rate floating did the 9.9% I think it is 9.9% that migration is happening to right yes from 11%?

Sunita Sharma: It was around 8000 to 10000 Crores out of the 15000 Crores.

Roshan Chutkey: What is the observed tenure for your LAP book?

Sunita Sharma: Permitted tenure is 15 years but I think people will like to take the maximum, it will be more than 10 years, and observed tenure is more than 10 years.

Roshan Chutkey: Madam, if you can just give a breakup of the disbursements, you said that disbursements in LAP are about 7600 Crores for the year and developer is about 6400?

Sunita Sharma: No. I did not say that.



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- Roshan Chutkey:** How much is the developer?
- Sunita Sharma:** Whole book is 3400. It is 1621 Crores.
- Roshan Chutkey:** We are talking of disbursement growth for home loan pure home loan, it has fallen quarter on quarter am I right?
- Sunita Sharma:** Fallen! I don't think so. It will be around 15%.
- Moderator:** We will take the next question from the line of Dhaval Gala from Birla Sun Life AMC, please go ahead.
- Dhaval Gala:** Thank you for taking my question. I had couple of questions, one, what is the outlook on growth which you would like to say for the next year on individual core book and what is the proportion you would be comfortable with loan against property or noncore book as a percentage of overall loan book?
- Sunita Sharma:** If you are talking about growth it will be 15 to 18%.
- Dhaval Gala:** That will be for overall book or also for individual segment?
- Sunita Sharma:** Individual segment, pure home loan.
- Dhaval Gala:** What would be your outlook on where the share of noncore book would you like to keep it as a percentage of overall book, because last year when we spoke, I think you wanted everything close to 10%, the rest of the noncore but now it is going up?
- Sunita Sharma:** It is 8.9%.
- Dhaval Gala:** And you also have a developer book.
- Sunita Sharma:** 2.7% both put together comes to somewhere around 11% instead of 10%, it has increased by 1% as per my estimation, so I think 1 or 2% more we will go in LAP book.
- Dhaval Gala:** But there is no upper end restriction you have from the board approval level or anything like that?
- Sunita Sharma:** I don't want to go over a particular limit but it is still within the limit.
- Dhaval Gala:** Just to understand what could be geographical mix, on pure home loan business we had a very significant business coming from top 6, 7 cities, is the LAP similar geographical concentration is there in top cities or how it is; could you give some details on that?



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- Sunita Sharma:** Our business, one it is demand driven, the other it is intermediary driven, the agents who are our distribution channel driven business, the same distribution channel distributes home loans and the same distribution channel also distributes the noncore products, so it depends mostly on the marketing people because I have always felt there is enough for all especially in the housing finance business, there is enough for all the operators to work together, adequate demand is there, adequate business is there, it is always what business you do is a always a function of your own marketing activity and intensity, so if you look at that, from there you can conclude that wherever the home loan business is happening there only the LAP business will happen.
- Dhaval Gala:** Just to understand would you have a number how much the top 5 or top 6 cities would be contributing for loan against property product?
- Sunita Sharma:** Around 45% or so.
- Dhaval Gala:** Which is largely similar to your.
- Sunita Sharma:** Yes, I was telling you that only and same cities because there only the distribution channel is active or those people only will be getting it, you cannot really ignore, it has to be like that only.
- Dhaval Gala:** Why I was asking you this question was because you look at the top cities, your average ticket size of home loans there will be in the north of 20 lakhs or 30 lakh rupees especially the NCR, Mumbai and the key markets, but in the same regions you are getting a loan against property product of say close to 8-10 lakhs ticket size I was just trying to understand whether it is similar markets are markets which are tier 2?
- Sunita Sharma:** It is similar because I am telling you because salaried class will not take more LAPS; it will take only whatever is needed, they may have a higher property value but whatever is needed only they will ask for.
- Dhaval Gala:** So basically low LTV is the reason for being in tier 1 city.
- Sunita Sharma:** Yes.
- Moderator:** We will take the next question from the line of Chellappa Sivaguru from Pari Washington, please go ahead.
- C. Sivaguru:** The cost of funds have gone up to 9.48 in this quarter from 9.18 in the previous quarter, could I please understand why it is?
- Sudipto Sil:** I think you have got it wrong. 9.48 was the cost of fund as of March 31, 2015 and at the end of December it was 9.18 which have now come down to 9.14. It has actually come down.



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- C. Sivaguru:** The effective tax rate is high, could I just understand that?
- Sudipto Sil:** You would note that the CSR spends there is no tax that is the reason why the tax rate appears to be high but otherwise there has been no change in the tax applicability.
- C. Sivaguru:** What is the CSR spending?
- Sudipto Sil:** 14 Crores for the total year, majority of it has come in the last quarter, some 8 Crores or something has come in the last quarter.
- Moderator:** We will take the next question from the line of Saurabh Kumar from JP Morgan, please go ahead.
- Saurabh Kumar:** Madam, hi, I am just looking at your LTV slide, slide 13 of your presentation, why has LTV fallen in FY 2016 is that because of more developer and LAP?
- Sudipto Sil:** That LTV is on individual loans only, because of the LAP component the LTV is lower, and otherwise also the LTV in our company has been traditionally around the 50s.
- Saurabh Kumar:** Why should it fall from 51 to 46?
- Sudipto Sil:** It is the LAP component where the LTV is around 24-25%.
- Saurabh Kumar:** Second is on the developer loans so obviously we have now arrested the coal prepayment issue, if I just take your exit sanctions for FY 2016 as a benchmark can we now expect at least a 20-25% growth here now going ahead?
- Sudipto Sil:** In the developer yes.
- Saurabh Kumar:** Your average yield here comes to something like, if I am not wrong, close to 12 odd percent right?
- Sudipto Sil:** It is closer to 14. On the entire book it will be closer to 14.
- Saurabh Kumar:** I am just trying to understand this is like one area where you obviously have a lot of scope to improve your spreads on the overall and counter any margin pressure you may see on individual so can we expect this to go to something like 5%, you also have the real estate bill now where the cash is escrowed in the SPV, so is there any strategy you have to now move it to at least a 5 to 6% level?
- Sunita Sharma:** I just said it before also that we are already working very consciously on the developer loan book and last two and a half years we had grown at more than 50% in this area, only thing is because

the base is small it probably does not appear so significant to all of you but we have been focusing on this. The real estate bill definitely gives us more confidence, that is true, the transparency, accountability and efficiency will definitely help us to go a little more confidently in to that basket, that should help us in doing even better there.

- Saurabh Kumar:** What will be your total book now this 3400 Crores plus whatever the LRD book now?
- Sunita Sharma:** LRD is separate, 3400 is our developer loan book, and LRD is part of our LAP book.
- Saurabh Kumar:** What is that book, what will be the outcome?
- Sunita Sharma:** I don't have the number of LRD; I will not be able to tell you that. Next time, I will keep it separate. It should be around 400 to 500 Crores otherwise, it is a guess, and I am not very sure.
- Moderator:** The next question is from the line of Rakesh Shinde from Asian Market Security, please go ahead.
- Rakesh Shinde:** Good afternoon madam just wanted to understand that with this new MCLR regime coming in, there will be some question for you in terms of cost of funds, but at the same time there will be some competition pressure for you, so how do you see with this overall race moving?
- Sunita Sharma:** It depends, whatever the MCLR rates, the banks will definitely clear base rates but how much of that will be passed on in to the home loan market we will not be able to say that because earlier also the base rates for the many banks were lower but the home loan rates were higher, so it is possible that home loan rates will still be higher than the base rates if that happens, till now it has resulted in a very, very small reduction which is insignificant and for yearly reset at MCLR maybe a negative actually, it may not be a very big positive for them, so it may be good for us, so I think whatever additional benefits it gives to the customer it also takes away the yearly reset, so we will have to see that.
- Rakesh Shinde:** Madam just want to understand what is the yield on your developer book?
- Sunita Sharma:** 14% just now it was said.
- Rakesh Shinde:** 14% and our LAP is around 11.5% and 11.9%, right?
- Sunita Sharma:** Yes.
- Rakesh Shinde:** LRET is how much percentage of your books?
- Sunita Sharma:** It is small percentage. I think I said anytime it will be around 400 Crores to 500 Crores of total business in LRET.



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- Rakesh Shinde:** That is it from my side. Thanks.
- Moderator:** Thank you. We will take the next question from the line of Aditya Jain from CLSA. Please go ahead.
- Prakhar:** Good afternoon Madam. This is Prakhar. Madam, just two questions; one on the pure home loan business. If you are looking at kind of arresting the prepayment ratio and also pushing up the growth rates to 15% to 18% what sort of rate adjustment might be required to be bit more competitive in the market. That is my first question.
- Sunita Sharma:** Prakhar it is like this. I do not think with the rate adjustment you can do business. Businesses I have been maintaining it is by the intensity and the activity of the marketing team in the market and it really does not have too much of relationship with the rate adjustment.
- Prakhar:** My second question is on the LAP business, two parts to this question; one you mentioned that about half of your customers have kind of prepaid their home loans to take a LAP loans if I get it right. I wanted to understand why would customers do this?
- Sunita Sharma:** I did not say that. Prakhar we did not say that. What the question was that what is the percentage of LAP loanees to you who would have been your earlier customer. This is what the question. We did not say that they repaid to take. We never mentioned that.
- Sudipto Sil:** Prakhar, we have never mentioned that. I think you would not have got it. The question very clearly was how many of the LAP customers were your earlier customers.
- Prakhar:** Sure. Thanks for clarifying that. Secondly, in the LAP business are these mostly first time borrowers from LAP perspective or they have transferred the loan from somebody else because you know your rates are also quite competitive. Would you have any sense of like the balance transfer or the transfer loans that you have been able to get because your rates are competitive?
- Sudipto Sil:** Not much.
- Moderator:** Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** Thanks for the opportunity. I just have two questions. One was on the margin front, so in this quarter it appears that the cost of funds has come off significantly. How do we see margins for the full year of FY2017? So should we be able to maintain what we have done in FY2016 given whatever adjustments we are doing on the asset side and assuming that the cost of fund benefit may not be as good as we have seen in our first 16?



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- Sunita Sharma:** As I said in my initial comment that we have seen that already some rates have come down, so it will give us some benefit but the kind of advantage we got in 2016, we will get that much advantage in 2017 is to be seen because it depends on the outside market rate also, how the rates will be there in the market, what will be the borrowing cost and also it depends on how much we want to grow out LAP book.
- Umang Shah:** So broadly assuming that on the asset side broadly speaking we should be like 85% individual and 15% non-individual book probably by FY 2017, so that should give us some cushion in terms of margins?
- Sunita Sharma:** Yes, if we reach 15% including.
- Umang Shah:** I mean non-individual, developer, LAP LRD everything. Already sure, second question was regarding.
- Sunita Sharma:** It also depends on what will be our borrowing cost. You have to understand that. At the moment now it is 8.2 to 8.3% which is lower than the Q4 where rates were 8.6 to 8.7, so if our borrowing cost goes further down definitely we will have some margins and if it goes up then maybe it will be the other way round.
- Umang Shah:** So broadly it would be a fair assumption to make that whatever margins we have clocked in 2016 those margins should be likely getting protected.
- Sunita Sharma:** That is fair.
- Moderator:** Thank you much. The next question is from the line of Sarvesh Gupta from Trivantage. Please go ahead
- Sarvesh Gupta:** Thanks for taking my question. My first question was that if we see the last five years data, your loan book has broadly increased by 19%, but that has been helped by increasing ticket size which has been 10% CAGR, so your volumes have only grown by around 9% to 10% so my question was regarding the pricing that you are seeing and focusing right now?
- Sunita Sharma:** Why you compare five years? Why don't you look at last three years or 2.5 years? If you look at five years you are looking at one or two years, which we had not done very well. So that is how it brings down the averages and that is how you are saying that it is only 8% to 9%. Otherwise you look at last two years then we will discuss.
- Sarvesh Gupta:** Are you seeing any increase in the real estate prices in the market that you are?
- Sunita Sharma:** No, I do not think there is any increase in real estate life, very, very stable. It is there. There was three years back. The prices are at the same place.



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- Moderator:** Thank you. The next question is from the line of Vibha Batra from ICRA Limited. Please go ahead.
- Vibha Batra:** Thanks for taking my question. I have two questions. My first question is individual home loan growth, which has been 10% for LIC Housing Finance. If I compare it with the banks they have grown at 19% till March 20th as against 17% in FY 2015 and considering your spread of branches as you have been mentioning that focus has been higher on LAP but is it that rather than strengthening the workforce one has really shifted the focus and one has lost out on the core where we have grown by 10% and the banks which possibly have more network, but your network is quite sizable. You have grown at broadly half the pace, and my second question is if you are shifting your asset mix more towards LAP and builder loans and LRD from insignificant now it is going 12.5% it is going to may be 15%-odd are you changing your capital allocation because your leveraging does not seem to be corrected. Of course regulatory capital adequacy is comfortable because there are significant advantages on lower ticket size loans.
- Sudipto Sil:** I will take your second query first. Question of capital adequacy post the change in the risk weights has been quite comfortable.
- Vibha Batra:** But one is talking about economic capital and not really regulatory capital. Your asset base is shifting towards riskier segments, but it is not reflected in your capital structure?
- Sudipto Sil:** It is certainly because for that so-called risky piece of business the provisioning requirement of the regulator is also high. The risk weight is also high. I do not see how the risk component in the balance sheet is increasing.
- Vibha Batra:** Your leveraging is the same or higher?
- Sunita Sharma:** Higher.
- Vibha Batra:** So you move towards the riskier segment? Ideally you should be better capitalized?
- Sudipto Sil:** We are adequately capitalized. That is precisely what I am trying to tell you.
- Vibha Batra:** Okay. So can we go up from here and in beyond 12 times as well?
- Sudipto Sil:** That depends upon the external environment and also upon the call taken by the management vis-à-vis the opportunities in every segment. That is as far as your second query is concerned. Your first query regarding the banks; I have my own doubts regarding the veracity of such numbers what are the assets, but what are the classes of assets have they included the takeovers, have they included the loan against property data in that. I do not have any method.



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- Sunita Sharma:** As far as we know, I would like to tell you Vibha as far as we know, day before yesterday's presentation to us that HFCs have taken away the market share of banks and in the context the data which you gave does not appear to be plausible.
- Sudipto Sil:** Overall for the last two years, you would see that the banks share in the housing finance segment has dropped. That is number one.
- Vibha Batra:** We have raised a large number of clients?
- Sunita Sharma:** We are also in the system. We are also in the system, Vibha. We also track numbers and may be much more closely because we are in a competitive environment. Secondly as far as the individual market share of the banks are concerned, in the overall outstanding loan segment that does not seem to have meaningful changed in the last four or five years. Especially I am talking of the very big names in this segment, some of the largest ones. It is actually marginally come down.
- Vibha Batra:** Broadly it seems very different, 19% versus 10%.
- Sudipto Sil:** I am talking of individual market share of the leading players. Let us not argue on this matter. We have got numbers as you also have. So we are very clear about who is in the competitive arena and who is taking market share from whom and obviously we are yet to receive the fourth quarter numbers from the players we probably were the first ones to come out with the numbers.
- Vibha Batra:** Are you trying to do something differently?
- Sudipto Sil:** Let me complete. As I mentioned we do not know whether the LAP is also included in that segment of home loans which number you are talking about.
- Vibha Batra:** Even if it is included it would not make a material difference?
- Sunita Sharma:** All SME lending.
- Sudipto Sil:** That is your call. You are talking about disbursements; the banks do not individually disclose their disbursements number either annually or quarterly. That is number one. Number two is that they do not segmentally report what is the intersegment kind of classification vis-à-vis LAP and all that. We do share each and every detail very transparently.
- Vibha Batra:** But are you happy with your growth rate and are you going to do something differently coming year?



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- Sudipto Sil:** We are very confident about whatever numbers we are at the beginning of the year we had given an outlook that we would like to grow at around 15%, we have done that and whatever outlook we have given for the next year you rest be assured that we will achieve that too. Thank you.
- Vibha Batra:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Rajesh Ranganathan from Doric Capital. Please go ahead.
- Rajesh Ranganathan:** Thanks for the presentation. A quick question, you know a few years ago, one of the issues that we discussed was not to improve margin segment that you potentially target as the non-salaried class. You obviously addressed the margin issue targeting the salaried class with the LAP product but in the future are the non-salaried class housing loan a product that you would be looking at in a more aggressive manner?
- Sunita Sharma:** Yes we have also started working little working a little on that. We are targeting professionals. For example this year in the last quarter we have done a little of targeting on doctors. So we have started looking at that while we have to be very careful that which class of professions we are going to target. We have started working on that too. May be next year this will be a higher focus.
- Rajesh Ranganathan:** Related question, you know one of the questions was regarding distribution cost and obviously distribution cost in the LAP product are higher but at the same time do you protect yourself in the sense of repayment in case you have given a processing fee waiver and there is an early repayment. Are you protected in terms of clawing back your processing or the commission charges you have paid and two, are you looking at how you can structurally reduce distribution cost by using direct selling methods whereby instance you are targeting in 85% of your loans fairly commodity product is there a way of reducing distribution cost further?
- Sunita Sharma:** First of all we do press ourselves for the repayment as well as this high cost product is concerned. Yield product is concerned, LAP and all, we do correct ourselves. Second we do also have direct business but the number is less. The only difference is that there was a point of time in this company when most of it was to be direct business, but when you had to increase your reach and when it becomes a very big volume business then you need to have more hands. You need to have more people who can distribute your products. So for that when the company grows distribution channel becomes a necessity and that is why they have to be used and distribution network becomes important.
- Rajesh Ranganathan:** I understand, but are you looking at say using the Internet for instance to reduce to 0.5% is a very high number?



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- Sunita Sharma:** We are already distributing on Internet. This year last quarter we have started that also. Online marketing has started. Online distribution has started. We have started but it has not taken very big push at the moment. May be this financial year it will start working more aggressively.
- Rajesh Ranganathan:** Sure, as you said it is all about intensity and the 0.5% number is something which needs to come down?
- Sunita Sharma:** Yes. Thank you.
- Anand Laddha:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Roshan Chutkey from ICICI Prudential. Please go ahead.
- Roshan Chutkey:** Thank you so much for taking my question. Madam, just once again, can you please repeat the disbursement numbers for the three segments for this quarter?
- Sudipto Sil:** Roshan can we do it offline. I think there are some more queries there.
- Roshan Chutkey:** This is all the question I have Sir.
- Sunita Sharma:** For individual it is 34529 Crores, for project it is 1621 Crores.
- Roshan Chutkey:** This is for the full year, right?
- Sudipto Sil:** Yes full year.
- Sunita Sharma:** Full year yes.
- Roshan Chutkey:** Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints we would be taking the last two questions. The next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.
- Manish Shukla:** Good afternoon Madam. Just one question to go back to the disbursement number you said 7600 Crores was non-core for the full year which implies a 4400 Crores number for the fourth quarter approximately?
- Sudipto Sil:** No, that is not correct. It is actually the fourth quarter number for the non-core segment is around 3500 Crores.



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- Manish Shukla:** Thank you. That was my question.
- Moderator:** Thank you. We will take the next question from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** Thank you very much. Again on the LAP segment, Madam. Did I here you mention that it is the same sales force and better incentive when LAP product is what is kind of incentivizing them to go after LAP more than home loans. That is part one. Second part is the customers who are taking the 12.5 lakhs or 13 Crores kind of loans the salaried folks do you have any sense of what they will be using it for because yours is fairly unique because most of your other LAP players we talk to normally lend to businessman and not to salaried folks. So just wanted your sense on what the utilization is for?
- Sunita Sharma:** We do not lend to business houses. We mostly lend to salaried. Secondly what they are using? Normally we look at this LAP into two other things. One is what we look at it is that the property should be residential, self-occupied and **(inaudible) 57.50** so we will use the risk there. Number two what we see is that the person should be able to repay the loan without having added income from our loans. So it is his repayment capacity at the time of initiation. That is what we see. That is why because we are able to see these two three things we do not ask how he is using his money, but we know why he is using. There is a column it implies one is renovation of his house. Second is upgradation of his house. Third is extension of home property. The fourth reason, which sometimes comes once in a while and many times is the education loan for his child.
- Sunil Tirumalai:** The first two parts in terms of his incentive actually driving this?
- Sunita Sharma:** Not only incentive. Incentive why we said that was because we wanted them to distribute this more that is why we gave a little more incentive than what is being given for home loans, but it is our push to the products that is what is driving it. The day I want it to be reduced I will reduce the incentives.
- Sunil Tirumalai:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to the management for their closing comments.
- Sunita Sharma:** Thank you. It was a very good set of questions and these questions are always encouraging us to think differently and to think in the direction where my investors want us to think. We will continue to work for the good of the company and ensure that the company does its best this year too and we are able to again deliver similar growth with profitability. Thank you so much.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.