



“LIC Housing Finance Limited Q2 FY 2016 Earnings Conference Call”

October 16, 2016



ANALYST: MR. SACHIT MOTWANI – AXIS CAPITAL

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

**MR SUDIPTO SIL - ACM (MD SECRETARIAT)
& INVESTOR RELATIONS MANAGER**



LIC Housing Finance Limited
October 16, 2015

Moderator: Ladies and gentlemen, good day and welcome to the LIC Housing Finance Limited 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. Sachit Motwani from Axis Capital Limited. Thank you and over to you sir!

Sachit Motwani: Hi, Good afternoon everybody and welcome to the Q2 FY'16 earnings conference call of LIC Housing finance. We have with us Ms. Sunita Sharma, Managing Director and CEO and Mr. Sudipto Sil to discuss the results. I now request Ms. Sharma to take us through the key financial highlights for the quarter post which we will have the Q&A session, over to you Madam.

Sunita Sharma: Thank you Sachit. At the outset, I welcome all of you to this post earnings conference call. As you are aware, LICHFL declared its Q2 FY'16 results yesterday. The highlights are as follows:

PAT up by 21% to Rs. 411.73 Crores, revenue from operations up by 17% to Rs. 3026 Crores. A very strong growth in net interest income - NII for the quarter is Rs. 717 Crores up by 35%. NIM for the quarter is at 2.56% best in last many years, may be four years. Gross NPA is at 0.60% down from 0.63% a year back, gross NPA in retail at 0.33% down from 0.38% a year back, net NPA down from 0.33% to 0.32% year-on-year. Disbursements of Rs. 8390 Crores growth of 17% for the quarter, outstanding loan portfolio now stands at over Rs. 1.14 Lakh Crores - a growth of 17%. On the growth front, the disbursements clocked a 17% growth for the quarter as against 10% in the Q1 of this year. Individual loan disbursements too have improved by 5% points as compared to Q1 and the welfare disbursements have recorded a nearly 200% growth albeit on a low base. Loan book has grown by 17% overall including 25% in developer segment, LAP book is now at almost 6% the book as compared to little less than 5% a year back. We had shared with you in our earlier interactions about increasing our share in high margin segment. I am happy to tell you that the efforts have started showing results. However, we would like to assure you that we would continue to exercise caution while increasing our exposure in such segments. Margin recovery has continued to come through in Q2 as well with a year-on-year as well as sequential increase. Our strategies on the assets asset side coupled with the reduction in systems cost of funds as well as in an efficient management of liabilities have helped reduce our weighted average cost of fund by almost 20 BPS in the current financial year. We will get a further benefit of the reduction in wholesale cost of funds post September credit policy in the current quarter. The liquidity situation continues to be very good in the system. Asset quality continues to be stable, both sequentially and year-on-year basis with slight reduction in percentage terms. Thank You.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from IDFC. Please go ahead.



*LIC Housing Finance Limited
October 16, 2015*

Mahrukh Adajania: Hi, congratulations. Just wanted you to articulate your strategy on how you will position yourself with so many base rate changes by banks in terms of your lending rates and also in terms of your product, what is the most popular product right now, at what rate?

Sunita Sharma: At the moment our borrowing mix is like this that more than 70% of borrowings are from the NCDs and nearly 15% are from the banks, so banks have reduced some rates, but not all them, some of the banks have reduced. So we look at that, but we still have a head room for reduction in the bank borrowings. So we continue to work on that. We would like to reduce it further, maybe up to 12% and that is how at the moment the plan and the strategy are.

Mahrukh Adajania: No, I was asking more in terms of landing rating rates, because banks have cut their base rates and their home loan rates have also come down and they continue that as they move towards marginal cost of funds, so there is going to be lot of competition on the lending rates.

Sunita Sharma: Since we also have got some relief or may be some benefit on the borrowing cost as the RBI has reduced the rates, on that basis even the NCD market, our fund availability is at lower cost now. Cost to us also will reduce, we will definitely like to pass it on to the customer and when you pass it on to the customer we become competitive.

Mahrukh Adajania: Right, when will that happen, any quantum, any broad range of cuts?

Sunita Sharma: We will take a call in our ALCO which should happen in two three days and then decide.

Mahrukh Adajania: What is your most popular product right now?

Sunita Sharma: There is a product called Home Loan Better Choice.

Mahrukh Adajania: And that is for how much, current rate?

Sunita Sharma: It is at - actually in this we have already reduced rate, is at 9.6%.

Mahrukh Adajania: It is at 9.6 and that is again fixed converting into floating.

Sunita Sharma: Yes.

Mahrukh Adajania: So 2 years, but this fixed in to floating it worked well when rates were raising or stable, now fixed into floating will it work that well. If we expect the interest rates to continue to decline, I mean no one has that much of visibility on rates, but if we are talking about a declining rate environment for sometime, then will this product work as effectively in a low rate environment?

Sunita Sharma: Yes, it should work because in a lower interest rate regime, what happens is when interest is lower, even the cost of fund for us also goes down. It is always better for any company, but why this fixed to floating is because some customers prefer that in the beginning they should know



*LIC Housing Finance Limited
October 16, 2015*

that what fixed outgo how much is going to go, especially for the salaried segment. So for that this product is very popular because of that and for us around 85% loaning we do it is for salaried segment.

Mahrukh Adajania: Correct and just in terms of this better choice, so how much percentage of your incremental disbursements would be under this product?

Sunita Sharma: 60% - 70%, I think 65%.

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

Kunal Shah: Yes, congratulations Madam on a good set of numbers. Three questions; firstly in terms of say the increase in yields which are there particularly on a calculated basis. If we can quantify as to how much would have been seen the repricing benefit into it and how much is on account of change in portfolio mix towards the higher yield be it in terms of LAP or I think slight developer loan portfolio has gone up, not as significant, so if you can quantify in terms of how it as happened and going forward how much of repricing will take place, in terms of so even if you are reducing the rates, we may not see that much of an impact on yield.

Sunita Sharma: First of all this question will be replied by Sudipto because it is calculated, the calculations will be done by Sudipto, but one think I will like to explain to you Kunal is that our portfolio has increased, the developer loan portfolio has increased by 25%, it is not small, 25% for us is very important.

Sudipto Sil: Yes Kunal, as far as the increase in yield is concerned, the portfolio mix which was in the higher yield segment on a year-on-year basis has gone up from around 6% to close to 9% now and this portfolio is yielding on an average of around 13%, the developer plus the LAP put together.

Kunal Shah: So this 3% is almost like 3% points higher rate.

Sudipto Sil: That is right, so that you can just factor it.

Kunal Shah: Any repricing benefit?

Sudipto Sil: Repricing benefit in the first quarter was almost nothing. In the second quarter some very small amount has come, but as we always mention is that when we talk about improving the core profitability and the core margins, we do not look at those benefits which are coming from repricing.

Kunal Shah: I think the overall focus on LAP would still continue so we are since this quarter also may be it is increasing and first half it is somewhere 13% to 14% in terms of proportion of incremental disbursements. So I think that is the strategy of focus towards LAP would continue.



*LIC Housing Finance Limited
October 16, 2015*

Sunita Sharma: It will continue for next two quarters yes after that we will have a look at it what are the percentages, what portion of the portfolio, LAP portfolio is arrived at, after that we will take a call that we have to continue to focus we do. We have to taper it down; we will take a decision after the fourth quarter.

Kunal Shah: Interestingly is it towards the sell rate because the proportion of self employed has actually come up quarter-on-quarter.

Sunita Sharma: Yes it is only to the salaried class mostly. I mean 90% of it will be salaried class and I mean it is and if you look at it the average size of the loan is also around 12 to 13 lakhs. So it means if the numbers are more we are not doing it like what are the companies would do that if loan against property to big, big people and or may be to institutions and then for that I mean that becomes a concentrated risk. So we have actually spread it to smaller units and all across the country.

Kunal Shah: It is would be 1% point higher than this income.

Sunita Sharma: 2% points higher than.

Kunal Shah: Two more questions if you can. One was on the repayment side. So the repayment during the quarter has been slightly higher. So is it more of a balance transfer cases which we are seeing because when you look at the average 3.3% to 3.5% of portfolio gets repaid in our quarter. This time it is almost like say 4.2. So your outlook on that so whether we expect this to continue and this is particularly on account of steady balance transfer.

Sunita Sharma: It is mostly some increase is there but this is manageable in a sense that because whatever is being replaced also through the LAP is at the same value, so we are not really bothered not too much concerned about it, we have had a look at it and we will be working on this but it is not a very big concern.

Kunal Shah: Once with rates I think that should.

Sunita Sharma: Yes it may probably impact that also. No impact on our margins because of this because we are replacing it with the higher yield product.

Kunal Shah: One last question in terms of the rise in the developer loan NPL up to 40, 45 Crores. So is it like something technical in nature or again.

Sunita Sharma: It is the LRD account and some payment is already been received in October and I expect that within October itself it will get resolved. It is only that some payment they could not make it but they have already made some more payment and they should be able to make it standard within the month October.



*LIC Housing Finance Limited
October 16, 2015*

- Moderator:** Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Funds. Please go ahead.
- Anand Laddha:** Congratulations madam for good set of numbers. I have few questions. Just want to understand in terms of LAP what was the disbursement this quarter in the LAP side and if you can quantify what was the same disbursement in Q2 last year?
- Sunita Sharma:** This was 13% of 14,000 Crores. So you can just make it 13% of 14,000 LAP would be around 1800 Crores this quarter or it was in H1 actually. 1800 Crores H1 two quarters put together and if you really see it last year it is a growth of 114% over the last year. So we can discount it like that then you will come to know what is the figure. It will be around 800 to 900 Crores.
- Anand Laddha:** If I have to remove the LAP disbursement of our individual disbursement, growth in individual disbursement had slowed down compared to what was last year, is it fair to assume that a full year disbursement you see a lower disbursement compared to last year for the full year a bit of 3%.
- Sunita Sharma:** No we have targeted 15% growth in our disbursement for the year. This is our target. We probably will end up by doing 17%, 18% but they conservative estimate we had taken was 16%. So it will be more than 16% to 17% last year. We had grown at more than 20% and it was on the base effect of nearly no growth of year before that since last year it was 20% growth. We had knowingly kept it at 15%.
- Anand Laddha:** My question was our home loan disbursement was very high last year and this year in the first half we have seen significant slowdown.
- Sunita Sharma:** The amount is more; only thing is you think growth is less. This is what we have decided, this is what we are going to do, so we have done it according to our own it is a strategic move looking into the current condition. I mean we have decided like this only. It is not that it has come as a surprise. We have moved to the higher margin product so because of that we are working on higher margin product keeping an eye on home loans also but not to that extend. You understand that.
- Anand Laddha:** Today our developers and LAP is closer to 10,000 Crores. Is there any number in the mind that you likely 15% to 20% or there is no such thought at this point of time?
- Sunita Sharma:** Actually we would like most likely both of them put together should reach more than 10% by the year end. It is may be 11%, 12% it will reach by that time. We will take a call at that time in the year end. For the next year what you want to do will likely to continue it how much margins are going to give it to us after that we will take a call. May be we will look at it at that time. May be we will work more for home loans at that time.



*LIC Housing Finance Limited
October 16, 2015*

- Anand Laddha:** You just mentioned to earlier question that currently 65% of the disbursement are 9.6% fixed rate loans for two years, balance 35% because which you product if you can.
- Sunita Sharma:** Balance 35% is from all other products. There are fixed products they are just various kinds of products including LAP.
- Anand Laddha:** What could be your disbursement in the mortgage to pure mortgage and floating rate, and what is your floating rate right now?
- Sunita Sharma:** Floating rate is 10.25.
- Anand Laddha:** Madam on the outstanding book 35% of the book is on floating rate.
- Sunita Sharma:** I did not say that. I said various other products they are fixed also. Fixed, LAP, everything is there. LAP is floating yes you are right.
- Anand Laddha:** On the percentage it says that 35% of the housing loans are at floating rates, what could the yield on those be? What could be the yield on those be?
- Sunita Sharma:** Separately at the moment it should be around 11% nearly 11%, slightly more than 11%.
- Anand Laddha:** In the last three months or six months, have we cut our lending rate for the existing customer?
- Sunita Sharma:** We going to take a call within two, three days.
- Moderator:** Thank you. The next question is from the line of Nishchint Chawate from Kotak Securities. Please go ahead.
- Nishchint Chawate:** Thank you very much. May be this is a little repetitive but just if you could give a little bit of color on what is that makes you little more confident on 17%, 18% disbursement growth as compared to 11% in the first half?
- Sunita Sharma:** We have done 17% in this sector.
- Nishchint Chawate:** The disbursement growth.
- Sunita Sharma:** Disbursement growth is 17% in Q2.
- Nishchint Chawate:** I am looking at first half so.
- Sunita Sharma:** First quarter was less.
- Nishchint Chawate:** 13% in the individual.



*LIC Housing Finance Limited
October 16, 2015*

Sunita Sharma: It is 14% in the first half so normally growth in the fourth quarter is always better than the growth in any other quarter. Normally the growth in the first quarter is less than any other quarter that is why it appears 14% in the first half and the last quarter always is more. That is why it will be around 16-17%.

Nishchint Chawate: To put it differently are we able to see any change in the demand environment or is it kind of more of the quarterly phenomena?

Sunita Sharma: One is it is quarterly phenomenon and second is that for us demand remains good because we are in the end user segment. Secondly after the interest rate changes cuts I think people will be more enthused to come for affordable housing and there will be stable property prices that will help in probably market growing up a little.

Nishchint Chawate: Second question what are your thought around optimal leverage levels and any kind of a thought process on capital?

Sunita Sharma: With the RBI reducing risk rates, I think the capital for banks at the moment will get definitely released and I expect that even for the HFCs the NHBI will take a call and it will get reduced by HFC also, then we will have a capital release, at the moment it is at 12% of capital adequacy ratio. If that happens with that it will go to 14%. So for next 12 months I do not think there is a need for raising capital.

Moderator: Thank you. The next question is from the line of Rakesh Mukhim from Barclays. Please go ahead.

Rakesh Mukhim: I have two questions. Madam the incremental yield that is reported in the presentation between first half of last year and first half of this year is flat and this has been despite the mix shift towards some of the high yielding product. So if you could just kind of share your thoughts on this. Is there some amount of time lag in the mix that is appearing in the incremental yield numbers or how does it works.

Sudipto Sil: Rakesh actually there is some lag that will be there because if you see the disbursement in the developer loan has started picking up in Q2 itself; Q1 was also not very strong. Q2 has been strong, so that will certainly benefit us.

Rakesh Mukhim: So just to get some sense that.

Sudipto Sil: The yield shift, just to continue, if you see the product mix vis-à-vis last year and this year there has been about a 2% point increase in the overall mix change to the higher yielding segment, 6% to slightly more than 8% or close to 9%. So that on a base of around 250 basis points is the benefit that will come from the yield side.



*LIC Housing Finance Limited
October 16, 2015*

- Rakesh Mukhim:** The second question basically was around the tax rate if you could just kind of explain why on a sequential basis the tax rate is slightly higher?
- Sunita Sharma:** I think the government has imposed some kind of charge which was earlier 10% it has gone to 12% so because of that the tax rate has become different, now instead of 33.99% it has gone to 36.10%.
- Rakesh Mukhim:** This is the tax rate on a normalized basis.
- Sunita Sharma:** Normalized basis we have to do it for both the quarters.
- Sudipto Sil:** Because last year the union budget was presented in month of July by that time the quarterly results were already declared by the companies but the tax rate is actually for the full year. So you have to make some kind of a catch up.
- Rakesh Mukhim:** Understood. Madam one last question on the employee expenses bit is there some impact of the movement in G-sec on the pension liabilities for the quarter?
- Sunita Sharma:** Yes it is because of that only around 6 Crores.
- Moderator:** Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.
- Hiren Dasani:** Thank you. Congratulations madam and Sudipto. One question more on the pricing strategy, in the last round of interest rate declining environment or the lower interest rate environment I think as a company LIC Housing Finance took a call that we want to focus more on the volumes and I think probably we were one of the most aggressive in terms of the pricing. Do you think that we will do the same thing this time as well as or we will have a slightly different perspective on that, I mean I am saying about few years back?
- Sunita Sharma:** I never knew about this, I was surprised when you said this.
- Hiren Dasani:** You can look at the spreads in the yields at that point of time and it is pretty obvious.
- Sunita Sharma:** Correct. What I would like to say is that actually margin improvement is now the focus. We are not looking at going aggressively for the disbursements or expanding the book. We will like to have a steady growth with profitability that is what my motto is; I want the company to be working only on that. For the company to be profitable it is important that we take care of the quality as well. Asset quality is important. Control on NPA is important and we go into that kind of product mix which improves our margins. This has been the focus for last two years, which has started giving some results and it will continue to be the focus for some more time.
- Hiren Dasani:** So the idea is to remain competitive.



LIC Housing Finance Limited
October 16, 2015

- Sunita Sharma:** No we do not want to be least interest rate marketer, no.
- Hiren Dasani:** The other question is that on the developer loans also it seems that the yields are coming off, is that right understanding or Sudipto maybe if you can on a quarterly basis if you look at yield on private loans.
- Sunita Sharma:** Partially yes but it is because there was not much growth in the portfolio. Now since the portfolio has started growing and it is also because of the quality, some NPAs are there, some accounts are there where quality was an issue now since we will start growing the portfolio all of those issues can be addressed and will get addressed also.
- Hiren Dasani:** Is it possible to get the absolute level of corporate gross NPLs at as of June as of September both numbers.
- Sunita Sharma:** It's about 300 Crores.
- Hiren Dasani:** 300 Crores and that has gone up by?
- Sunita Sharma:** 320 Crores.
- Hiren Dasani:** The corporate gross NPAs and that have gone up some 40 odd Crores in this quarter.
- Sunita Sharma:** June 30 Crores.
- Hiren Dasani:** Which was what you explained earlier because of the LRD account, as you are saying it is kind of already standardized in the month of October.
- Sunita Sharma:** Yes.
- Hiren Dasani:** Just one last question on your credit parameters which is your individual loan to value ratio as well as installment to income ratio, it seems there is some marginal coming off on both numbers, which is actually good on the incremental pension side as per the presentation. Are we consciously kind of tightening the lending standards or what is happening here?
- Sunita Sharma:** As I told you that our focus has been on profitability and we want growth, steady growth and profitability but not at the cost of profitability, so asset quality is an issue with us. One is asset quality the other is that we cannot be, it is known for all the people who are taking decision that the loan to value has to be restricted because we never know what will happen with the property prices tomorrow. This is a conscious decision taken by us that we have to be very conservative on loan to value.
- Hiren Dasani:** Incrementally the peak loan to value you are kind of pulling it down or how?



*LIC Housing Finance Limited
October 16, 2015*

- Sunita Sharma:** I am not doing it purposely. Every decision we take everywhere, all over the country when people are taking decisions they are aware they have to be very careful about loan to value.
- Moderator:** Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.
- Pankaj Agarwal:** What is your incremental funding cost at this point of time from different sources?
- Sunita Sharma:** Our incremental funding cost is 8.35.
- Pankaj Agarwal:** So you are able to raise 1 to 3 year money at around 8.35 right?
- Sunita Sharma:** Yes.
- Pankaj Agarwal:** That is from bond right.
- Sunita Sharma:** Bonds.
- Pankaj Agarwal:** In terms of how much of your portfolio will get repriced over the next two quarters and at what price.
- Sunita Sharma:** It is around 15,000 Crores.
- Pankaj Agarwal:** What could be this repricing?
- Sunita Sharma:** 11% may be little less than 11%.
- Pankaj Agarwal:** What is the current yield on the portfolio?
- Sunita Sharma:** This portfolio current yield will be around 10.3 to 10.25.
- Pankaj Agarwal:** That will jump to 11% and it would be around 15,000 Crores.
- Sunita Sharma:** Yes.
- Pankaj Agarwal:** In terms of the current product where you are offering 9.6% for the first two years and then it becomes floating I believe it jumps to 11%.
- Sunita Sharma:** If we take a call on interest rates on our existing portfolio also may be it will be different slightly different.
- Pankaj Agarwal:** So the new products which you are offering where you are offering 9.6% for the first two years and assuming that it jumps to 11% right.



*LIC Housing Finance Limited
October 16, 2015*

- Sunita Sharma:** No it will not jump to 11% suppose we take a call on our PLR then it will have different thing.
- Pankaj Agarwal:** I am assuming that PLR let us say if PLR does not change.
- Sunita Sharma:** Then it will be 11%. I concede.
- Pankaj Agarwal:** So the question is as a borrower let us say I am offered 9.6% wise SBA where I know that I will pay 9.6 and probably the rate will go down.
- Sunita Sharma:** They do not go down.
- Pankaj Agarwal:** Now here I mean I will pay at least 9.6% for the first two years and if you do not change your PLR I will pay 11% right. So what is the selling point why a borrower should go for this product?
- Sunita Sharma:** It's very simple, one is transparency. We do not charge extra days for these charges, that charges, there are so many charges which other people are doing which we do not do, customers are aware of it. Second is the servicing. Servicing is the most important part because it is a service at his doorstep. We go to the customer, our agents go to the customers and some of the customers also, another issue which is very important is some of the customers still prefer fixed outgo for first two, three years because when they start growing in their life they would like to have there should be clear what for two years I would like to give. After that if it increases it really does not matter because by the time they have made their mind the incomes increase and the environment changes so it is comfortable for people like that.
- Pankaj Agarwal:** I understand Madam but even this fixed outgo is equal to what you are getting in the market. I would have understood if it like 9.3 or 9.2 then jumping to higher. Because you are paying lower than what other are offering right but even if this fixed outgo is low equal to what market is offering and when we know that it could be higher than the current rate. I mean I am still not getting why a borrower should go for this product.
- Sunita Sharma:** It is actually a protection from the upside. If borrowers do not know in next two years if there are dramatic changes in the interest rate it may go up in a floating rate at least in a fixed rate it will remain the same for next two years and in any case after two years when it becomes floating whatever the interest rates will be according to that the PLR changes will take place even with us also. So that he is aware and any customer would be aware of that.
- Pankaj Agarwal:** Finally on your NPA moment I believe you have added around 30 Crores of corporate NPA during this quarter but even if I exclude that normally if I look at last five, six years normally you see a gross decline in your gross NPAs on between Q1 to Q2. Normally that has been the trend for last five, six years. So this quarter it is bit different I mean even if we exclude this 30 Crores kind of flattish.
- Sunita Sharma:** Yes it is flattish correct. It will reduce, not major surprises it will reduce in the next quarter.



LIC Housing Finance Limited
October 16, 2015

- Pankaj Agarwal:** My question was normally you will see a jump in the first quarter and then second quarter it comes down. This time it has not.
- Sunita Sharma:** But this jump this time in first quarter jump was not there very little. It was better than last quarter that is why there is probably this different presentation is there. There is a pullback of 18 Crores from June to September for retail loans.
- Pankaj Agarwal:** Finally leaving aside the risk bit from your own comfort and from the comfort of the rating agencies what could be the maximum leverage on your loan book both from your and rating agencies perspective leaving aside the risk bit?
- Sunita Sharma:** At the moment we are very comfortable. There are no issues actually may be perspective also there are no issues. We are comfortable.
- Pankaj Agarwal:** But maximum how much we can go I mean can it be 20 times because theoretically we can go 20 times right.
- Sudipto Sil:** Pankaj we can go to the maximum level, which is permitted by the regulator 16 times and you have to also understand that in a situation where the margins are improving, profits are growing then that also will support your Tier I retentions.
- Pankaj Agarwal:** I understand I mean I was thinking more in terms of stable stage because the risk rates are coming down because I understand your Tier I requirement is only 6% so theoretically if you are doing small ticket size I think you can theoretically leverage even 20 times. So whether that is possible given your Triple A rating or your own comfort on the leverage.
- Sudipto Sil:** We are not constrained to grow because of leverage or any other issue. It is just to what extent we would like to grow looking at our overall risk appetite and market situation that is it.
- Pankaj Agarwal:** So I think 15 times would be the fair leverage.
- Sudipto Sil:** We cannot talk numbers on this matter but what I am trying to say is that there is no constraint either from the leverage point of you and also from the regulatory aspects. I think the rating agency views there have never been any issue with rating agency. I do not know why you are.
- Pankaj Agarwal:** I am not asking about your current leverage.
- Sudipto Sil:** I am talking of even current or otherwise also I think leverage has never been an issue with any of the rating agencies.
- Moderator:** Thank you. The next question is from the line of Adarsh P from Nomura. Please go ahead.



Adarsh P: Couple of questions. The first one was generally if you net off the LAP disbursements individual mortgage disbursement is growing in a single digit number. So just wanted a sense of which markets are you still seeing double digit growths and I am sure there will be few markets where there will be contraction. So if you can just highlight the cities or peripheries of those cities where you are seeing a contraction and a double digit growth.

Sudipto Sil: First of all is that, two things, when I said growth is not single digit secondly is that why will we remove one segment of business from another segment for what. When the company has taken a decision and a conscious strategic call to increase its presence in certain businesses, which are fetching a higher margins why shall the company be why shall it be required to remove that segment and see for the other for what purpose that is lost on me but yes to answer your queries we are seeing very good growth in the Eastern, Central, Western even some of the Southern states are showing very good growth; North also has picked up quite a bit states like Rajasthan are doing extremely well. We have seen exceptional growth coming out with places like Gujarat and as mentioned in the Central Indian states Chhattisgarh, Madhya Pradesh, parts of UP, Bengal, Bihar, and Orissa.

Adarsh P: Second thing which I wanted to check was when you have the fixed to floating product two years fixed and then floating does the customer have a conversion option like when I move from 9.6 to say 10.5 or 11 whatever may be the PLR linked rate do I have an option to convert back to say 9.60 which a new customer will get paying a certain fee or that is an option.

Sudipto Sil: That option is available.

Adarsh P: What you charge in general. What is the conversion fee?

Sudipto Sil: 1000 to 2000 taxes and all that that is it.

Adarsh P: Rs.1000 to 2000 because I would generally think that for a 50 odd which people would want to shift a lender but if the difference is 100 or north of that I would certainly think that if you do not have a conversion option then.

Sudipto Sil: Conversion option is there many people are opting for it also whenever they see that there is some kind of a benefit that they are getting they are selectively using this and the conversion fees are also I would say very, very nominal.

Adarsh P: Post conversion I would be 9.6 floating or.

Sudipto Sil: It depends upon various things including the amount of loan taken term etc., but it will not be 9.6. It will slightly more than that, there could be some benefit that the customer will get.

Adarsh P: Which could apply to this whole portfolio right so we are saying that we have 10.3% or 15,000 Crores loan and it could get repriced to 11 if whatever the rate is at that time.



LIC Housing Finance Limited
October 16, 2015

- Sudipto Sil:** You have to understand that there was a sizable chunk of business which was also returned at 9.25 some four; five years back at 9.5% no benefit in unnecessarily converting. You have to understand that there are people who are converting to floating rate now who had taken fixed rate probably even lower than today's.
- Adarsh P:** No specific numbers but any sense on what percentage of the people are getting who are moving from fixed to floating in the last two to three quarters. You have seen them convert actually and what people are still okay to pay the higher rate.
- Sudipto Sil:** Very small segment of people have converted.
- Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from IDFC. Please go ahead.
- Moderator:** Thank you. The next question is from the line of Sameer Dalal from Natverlal & Sons Stock Brokers. Please go ahead.
- Sameer Dalal:** I had a question on your developer loans. I want to know what kind of collateral are you taking from developers and also these loans that you are giving for developer side are they project based or are they corporate loans which they can use across different projects that they are developing?
- Sunita Sharma:** They are all project finance, not even a single corporate loan we are giving for the time being.
- Sameer Dalal:** So all of these are project finance and what kind of collateral are you taking against this.
- Sunita Sharma:** Mostly property.
- Sameer Dalal:** So the building that is actually being developed. Two times of the building that is actually being developed or something else that is already there.
- Sunita Sharma:** Land should be there and land plus receivables, construction.
- Sudipto Sil:** In addition sometime we take additional security either in terms of some physical assets or some receivables.
- Sameer Dalal:** And you said you take it up to two times of the value of the loan.
- Sudipto Sil:** Two times is the normal standard, it can be even higher.
- Sameer Dalal:** Coming back then to your LAP side now that has become 6% what is the LTV that should go up to in a LAP.
- Sudipto Sil:** Average is around 24%.



*LIC Housing Finance Limited
October 16, 2015*

- Sameer Dalal:** That is 24% of the LTV you go up to and can you tell us now incremental LAP rates what are they going at about?
- Sudipto Sil:** 12%.
- Sameer Dalal:** Now, another question on the housing finance side which you mentioned that 9.6 floating goes to an 11% fixed basis and actually some people are converting to that. What would be the reason they want to convert to a higher loan paying the Rs.1000 which you just mentioned.
- Sudipto Sil:** I think you have got it completely wrong. You have got it ultra.
- Sameer Dalal:** Can you correct me then?
- Sudipto Sil:** You have got it the reverse way. It's actually fixed rate for first two years and thereafter floating whichever rate it is prevailing at that point in time. So you cannot really say whether it will be 11% or 9% or 10% or whatever. So when people actually offer this product they actually want to remain insured or insulated from the interest rate movement in the first two years. That guarantees them a fixed outgo so that they can plan their other liabilities appropriately and when actually historically somebody would have taken this product at a higher rate of interest and current prevailing rate of floating rate is lower than that that is the time when you would see some benefit in paying very small upfront fee and converting to a floating rate loan, this if he wants to take a call on interest rates.
- Sameer Dalal:** I agree on that point of view, which is what exactly I was asking you. You said there are some people who have also changed going into the floating rate basis even though they are at a lower interest rate; I heard something on those lines.
- Sudipto Sil:** Somebody sometimes they want to take a benefit of interest rate movements. It is possible that some people want to play the interest rate movement. Some people would not like to play the interest rate movement. They would like to remain insulated. It depends upon the customer.
- Sameer Dalal:** Now my question actually follows after this say two years later on this your floating rates has also come down to say about 10% because interest rates are coming down by then many of the banks will actually be at much lower rate then the 9.5 so given that there are no restrictions on prepayment and changing of loans and things like that. How would you be able to protect your fair share of business which is there because you will be at a higher rate?
- Sudipto Sil:** I got your question. If you look at it the difference in interest rate between banks and us is there today also two years back also. So I mean nothing will change two year later. So the same way that we have protected our customers in the couple of years back also. It will be the same story. It was not that the situation was any different two years back.



LIC Housing Finance Limited
October 16, 2015

- Sameer Dalal:** I understand but if I had to put it in other way what is the total percentage of loans that are being pre-closed as a percentage of loans that are outstanding as a number basis if you can give me that number.
- Sudipto Sil:** Number basis it will be around say 5% preclosure.
- Sameer Dalal:** 5% every quarter.
- Sudipto Sil:** That is an annualized rate. There will be some people who will be paying some lump sum but that you cannot call pre-closures.
- Sameer Dalal:** That is fair I am saying preclosure.
- Moderator:** Thank you so much. The next question is from the line of Shantanu Chakraborty from ICICI Securities. Please go ahead.
- Shantanu Chakraborty:** Thank you for the opportunity. First of all congratulations madam not only for the numbers but the way you have stuck to your guns and whatever strategy you have articulated right at the beginning of your term you have stuck to it. So obviously your capital productivity is going up so as Sudipto was touching upon little while back your accruals are getting stronger and if NHB does follow suit on what RBI has done regarding risk rates clearly would it have any impact on the way you thinking about dividend policy.
- Sunita Sharma:** Very good question actually Shantanu Sudipto will reply to it.
- Sudipto Sil:** It is a good question. Dividend is something which is taken up at a board level to probably they will have to decide but we have always maintained the dividend payout and we have also ensured that the retail shareholders who look forward to the dividend get a good share. At the same time, in a business which is doing an ROE of almost 20% and likely to improve there is a good case for retention also. So decision is taken by the board keeping all these things in mind.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** Congratulation for good set of numbers. My question is what is the incentive which is being paid out to your direct selling agents in terms of percentage of loan?
- Sunita Sharma:** 0.3 to 0.5 depending on different slabs of their performance.
- Vipul Shah:** How much of it will be front loaded I mean in first year.
- Sunita Sharma:** All of that will be front loaded only.



*LIC Housing Finance Limited
October 16, 2015*

Moderator: Thank you. Ladies and gentlemen this was the last question. I would now like to hand the floor over to Sachit Motwani for closing comments. Mr. Motwani would you like to give your closing comments.

Sachit Motwani: On behalf of Axis Capital I would like to thank the management of LIC Housing Finance and participants for being on the call. Thank you very much.

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