"LIC Housing Finance Limited
Q1 FY2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2024 Earnings Conference Call of LIC Housing Finance hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you and over to you.

Praveen Agarwal: Thank you Yashashri. Good day everyone and welcome to the earnings calls of LIC Housing Finance. Today we have with us Mr. Tribhuwan Adhikari– MD & CEO. He has been appointed as the MD and CEO as of yesterday and we have Mr. Sudipto Sil – CFO. I would request the MD to share his initial remarks post which we will open the floor for Q&A. Over to you Sir!

Tribhuwan Adhikari: Good morning Praveen and good morning to all of you. Welcome to the post earnings conference call of LIC Housing Finance Limited. As you aware, LIC Housing Finance declared its Q1 of FY2024 results yesterday. As Praveen has already mentioned, I have taken over charge as MD and CEO of this company just yesterday. Board has approved my appointment yesterday. Of course I joined LIC HFL on 22nd June a few weeks back this year as COO, chief operating officer and in the few weeks I have been here as COO, this has given me the confidence that we are in the beginning of a new cycle of growth. In the past few months the company has undertaken a series of transformational changes which include a change in our technological platform, implementation of SAP, restructuring the marketing setup by opening of 50 new offices and 44 cluster offices, this is a new addition to our structure, improving the credit process by creating specialized credit appraisal clusters this is what is was talking about. All this has been done to deliver a superior growth both qualitive and quantitative with a significant improvement in TAT and customer service. More so since the company is now the largest HFC in the country. Since we have changed our technological platform some teething issues were witnessed in the initial part of the quarter specifically in the months of April and May. They have led to a transitory impact however things are improving fast and I am pretty sure that we will deliver positive results in the coming weeks, months and quarters. In terms of the external environment RBIs rate pause decision in April and June MPC meetings have led to stability in both borrowings and lending rates. This has brought back customers into the market. Demand across all sectors is witnessing buoyancy and is likely to remain that way for the most of the coming quarters. Now I would like to share the key financial highlights of the quarter of LIC Housing Finance. Total revenue from operations were 6746.51 Crores as against 5285 Crores for the corresponding quarter of the previous year, this is up by 28%. Outstanding loan portfolio stood at 276440 Crores against 255712 Crores as on June 30, 2022 this is a growth of 8%. If I bifurcate this the individual home loan portfolio stood at 231087 Crores as against 209599 Crores up 10% and now individual home loan portfolio comprises 84% of the total portfolio up from 82% a year ago. There is 2% uptick. Total disbursement for the quarter was 10856 Crores as against 15201 Crores out of that disbursements in the individual home loans were 9419 Crores as against 13133 Crores. Disbursements in project loans were 251 Crores as against 309 Crores for the same period previous year. As informed in the last conference call our aim for the current year is to expand our geographical presence by opening up of new offices which we have done. As part of our expansion strategy 50 new offices have been opened in the current quarter. We are also targeting at 25% growth in the number of MIs or marketing intermediaries or if I call it feet on the street. Net interest income rose by 39% to 2209.44 Crores as against 1592.48 Crores in the same period in the previous year. Net interest margins for Q1 FY2024 stood at 3.21% as against 2.51% for Q1 FY2023. This is largely as a result of better liability management and the impact of passing on the rate hike in PLR in Q4 and Q1. Profit before tax in the quarter was 1648.99 Crores as against 1140.36 Crores in Q1 of FY2023 registering a growth of 45%. Profit after tax for the quarter stood at 1323.66 Crores as against 925.48 Crores for the same period previous year, here we are showing a growth of 43%. In terms of asset quality stage 3 exposure at default as on 30 June 2023 stood at 4.96%. This is the same as it was in the June quarter for FY2023. Total provisions as on 30 June 2023 stood at 7590.68 Crores reflecting a provisioning coverage of 42% as against a provisioning coverage of 40% as on 30th June last year. There has been some increase in stage 3 which is largely transitory as earlier witnessed in Q1 and also due to some technical issues resulting out of the implementation of our new technical package and software. However the positive outcome is that there has been a marginal decline in the stage 3 of project loans. Visibility on the recovery in that area has also improved. On the funding side our cost of funds stood at 7.62% as compared to 7.63% as on 31 March 2023. Incremental cost of funds stood at 7.69% for Q1 FY2024. With this brief introduction, I would like to invite you for queries. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We will take our first question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thank you and good morning everyone. Sir firstly if you can help us understand what is leading to this kind of margin trajectory. Sir you yourself have gone through multiple interest rate cycles. I understand this is not really a 3.2% kind of margin business model so if you can help us understand while during the opening remarks MD Sir said that these are the impact of PLR hikes that we have taken in the first quarter but in the kind of spreads, the kind of margins that we are seeing today genuinely it is not adding up so if you can help explain that first and then Sir on the asset quality front also MD sir said in his opening remarks that here has been a marginal decline in the stage 3 of project loans so this 60 basis points of increase that you see in your gross stage 3, if they have not come up from project loans, they have not come home sales loans, is it predominantly retail which is leading to this kind of a increase and Sir lastly a data keeping question in earlier earnings call you shared the stage 3 numbers versus your product segment if you can just share that.

Tribhuwan Adhikari: As regards to the NIM the 3.21 NIM which you talked about is purely operational. The PLR hike and liability management had led to this so I could not get you when you said this is not what you expected. If you remember last year we passed on the rate hikes to the customer starting June, then some of it was passed out in the September quarter and the December quarter. The full impact of passing on of that rate hike has come in Q1 of this year so there is an increase in the NIM. As regards to your asset quality yes project loans our stage 3 has come down so basically it is the impact of 60 basis points is due to our individual housing loans and primarily the reason for this there is nothing extraordinary. The primary is the reason for it, let me be upfront I think the technological change which we undertook in the month of March that did create some technical glitches and as a result of which our collections on EMI from lenders was slightly hit in the sense if I may further clarify. In the case 85% of our EMI are collected through the E-Nach and Nach mode so there were some technical glitches in our software due to which the presentment of demand could not happen in the month of April and May so that did result in increase in stage 3, but everything has been taken care of now for month of June and July the presentments have been perfect and our collection efficiency is near normal so coming forward I would call it only transitory and I will use the word an aberration. In the coming quarter I am sure our stage 3 NPA's will definitely come down from what they are as of now.

Sudipto Sil: Abhijit if I may just add to what MD Sir said. Just coming back to the query on NIMs you are aware of the construct of the liabilities were good portion almost 50% plus of the liabilities on the fixed rate side whereas on the asset side a large number almost 95-97% is on the floating side. When the rates hikes were passed on there was not a commensurate increase in the cost of funds which we were able to hold back so that actually led to the expansion on margins more so because the full impact was felt in the first quarter. Whatever increases we had done from the period beginning 1st January and the one that we had done from 1st April the full impact has now been felt.

Abhijit Tibrewal: Got it. Will it be then fair to say that given that there are no one off that you are suggesting in the interest income line item given that by now on the asset side all the PLR hike that you have taken have been passed on and as we move along your liability side is depressed so the margins have kicked out and should start coming down from hereon will be that a fair thinking.

Sudipto Sil: I will not directionally comment on whether it will come down or things like that but only thing is that if you recollect last year we had given a clear indication that margins are going to expand as also in the call at the end of the fourth quarter and we believe that there will be substantial improvement in the margins for this financial year on a full year basis. There will be substantial improvement as much given the kind of strong set of numbers that has been given in the Q1.

Abhijit Tibrewal: Got it. This is useful and lastly if you can share that data question that I asked. So typically every quarter in the earnings call you shared the stage 3 numbers mix different project segment.

Sudipto Sil: Category segment wise right.

Abhijit Tibrewal: Yes Sir.

Sudipto Sil: So as far as the individual home loans are concerned the stage 3 is little less than 5100 Crores and the percentage is 2.2%, in the NHI that is non housing individual which is basically the retail lap etc., there the stage 3 number is 2100 odd Crores. The percentage is 7.8 then coming to the non housing corporate the stage 3 is 1630 Crores, the percentage is 24% and the project is 4874 Crores and the percentage is 42.12%.

Abhijit Tibrewal: Sir essentially 42.12 that you said has gone up right quarter on quarter versus 40% last quarter.

Sudipto Sil: The outstanding has come down by almost 400 Crores whereas the EAD has actually come down by about 20 Crores so there is a marginal decline but there has been 410 Crores reduction in the outstanding.

Abhijit Tibrewal: Got it and Sir lastly what is the status of the restructured pool now.

Sudipto Sil: See as far as the restructured pool now if you recollect we have done about 7100 odd Crores or 7200 Crores of OTR cumulatively out of which about less than 100 Crores still remain to go out which will be going out in the next quarter so almost everything has gone out. Out of that 7400 or 7300 number only about 5600 are still outstanding the others have been repaid or closed and the NPA there is around 18 to 20%.

Abhijit Tibrewal: NPA so non performing loan you said so what was this 18 to 20% you said.

Sudipto Sil: Stage 3.

Abhijit Tibrewal: Stage 3 from the restructured pool.

Sudipto Sil: Yes.

Abhijit Tibrewal: Got it. Thank you so much Sir. This is all from my side.

Moderator: Thank you. We have our next question from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Good morning Sir, so couple of question again a bit on the asset quality if we recall this Nach glitch was sort you had highlighted in your last quarter call. Now if I go stage by stage the stage 2 has seen increase in absolute term as a ratio and of course stage 3 so just if you can help I mean what sort of portion you can attribute to this Nach because stage 2 and stage 3 both have seen sort of a jump and also the provisioning coverage side you were around 49% GS3 coverage at December that you brought down around 45 odd percent to March. Now we are at sort of a 41 to 42%. So what is sort of driving and what sort of comfort you have that is sort of you are taking this provision coverage progressively down. Thank you.

Tribhuwan Adhikari: Well, when collections get delayed or interrupted, both stage 2 and stage 3 will naturally increase and that is precisely what has happened in the month of April and May as I said earlier. This technical glitch did affect us from collecting the normal collection efficiency which we normally have. So that was affected because of that movement from stage 2 and stage 3 was witnessed.

Sudipto Sil: As far as the overall PCR is concerned, I think there is only a marginal decline but more importantly, directionally, if you see the visibility on the project loan portfolio in terms of recoverability and collections, just to give some numbers, there was also a collection of more than 100 Crores during the quarter in terms of actual money collected in the project cases. So that is actually giving some level of visibility regarding the quality of assets on the project side, which is the most sticky and most difficult portion of the entire portfolio.

Avinash Singh: But I mean that project size NPAs are still I mean a reasonable sort of almost like 5000 Crores.

Sudipto Sil: There actually the provisioning coverage has not declined at all. Instead, in place of 36.88, the stage 3 has increased to 37.61.

Avinash Singh: Okay and Sir what sort of explains your relatively I would say higher NPAs or GS3 in your individual laps because if I recall the laps are allotted into salaried class and they are I mean closer to 8% of stage 3 in again lap category again is this something I mean where you expect improvement or is this a broader trend line that you are okay with?

Sudipto Sil: See structurally the product is a slightly higher delinquency product and that is the reason why the pricing is also done in that manner. Having said that the fact is that this also has got impacted because of the technical glitches that we discussed few minutes back and if you see for example in the NHI category for the March ending quarter, it was around 6.5% so from there it has increased. There also the total increase in net amount terms in stage 3 itself is about say 300 cores.

Avinash Singh: Okay Sir. Thank you.

Moderator: Thank you. We have our next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Hi thanks for taking the question. So firstly on the margin side, given that we are at 3.2 now and you mentioned like this is more of a operational, how confident we are in terms of sustaining it? Because I think we have been highlighting in terms of 2.5-2.7 odd percent margins. So now what would our view with respect to the margin trajectory.

Sudipto Sil: So if we see in the previous call, I think we had said round 2.5 or 2.55. Now probably we will be more looking at a range of between 2.6 to 2.75 kind of a band on a full year basis

Kunal Shah: Okay and the way it would come off in the coming quarters to settle at say 2.6 to 2.75 that would be largely because of the catch up on the borrowing side?

Sudipto Sil: I mean there could be some reduction on the rate front by RBI towards the end of the financial year also that is also possibly what we are trying to factor in.

Kunal Shah: I am just assuming that rates stay at where they are. Then in terms of this yield on advances at 10.15 how should that ideally move. Because I think incremental cost of borrowing is something which you have mentioned.

Sudipto Sil: The incremental cost of borrowing, if you see right now there is a decent amount of stability on the rate side though the yield curve continues to be quite flattish, it has come up in terms of incremental cost. In the March quarter we were clocking around 7.84 from there it has come down to around 7.69 which is very close to the average that we are having at around 7.62. So I would say cost line by and large will remain here only. There could be some exit of low cost liability, so to some extent few basis points up or down there could be a movement, otherwise on the pricing side, I think there could be a little bit of reduction in the lending rates going forward owing to the stability in the interest rates indicated by Reserve Bank at this point in time.

Kunal Shah: Sure and one last question with respect to growth. So obviously a lot of efforts have gone into the transformation agenda, but still in terms of the disbursements, it has not been that strong all through. So how is the run rate currently and finally what is the kind of outlook which we would have with respect to disbursement and loan growth?

Tribhuwan Adhikari: Well as I mentioned a major restructuring took place in the month of March and April also regarding number one change in the organizational structure and also our technological platform. So as I said also we had some glitches in the technology platform, so partially the degrowth in our disbursement space, I would attribute partially to this number one, the technical problems which we had. Number two, since the organization got restructured, we opened 50 new area offices. We open 44 new cluster offices so there was a lot of I would say transition of manpower, also movement of manpower from places here and there. So naturally as it is normal when a new person comes into a new office it takes time. So the marketing effort could have been hit a bit, but this was only witnessed in the months of as I said April and May from June onwards we are back on track. July has been up to expectations and going forward I see that I think we should be recovering fast and month to month improvement will be seen by us.

Kunal Shah: So run rate for June would be.

Tribhuwan Adhikari: Run rate for June approximately would be about 5000.

Kunal Shah: So out of 10,800, 5000 is in June.

Tribhuwan Adhikari: Yes.

Kunal Shah: Okay. Thanks a lot.

Moderator: Thank you. We have our next question from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh: Hi Sir I just had one question on this NPA on this 4400 odd Crores on the project book. Could you just break up as to where are these recovery been pursued, how much will be in NCLT, how much you are trying to do this one time settlement, so any colour there will be useful thank you?

Sudipto Sil: Saurabh actually NCLT we have received some positive decree and orders in our favour. About say maybe around 80 Crores of positive order has come in our favour, but the payment is yet to come. Total NCLT cases is close to 2300.

Saurabh: 2300 Crores out of 44,00.

Sudipto Sil: 2300.

Saurabh: Okay and how many participants?

Sudipto Sil: Around 20 odd accounts will be there, 22.

Saurabh: 22, thank you.

Moderator: Thank you. We have our next question from the line of Aniket Kulkarni from BMSPL Capital. Please go ahead.

Aniket Kulkarni: Yes good morning and thanks for the opportunity. So I had broader question regarding the trends of your performance, right. So when we look at the last couple of years, the financials have been a bit volatile in the quarters now looking at the types of numbers that you have listed in the last two quarters can we see some stability going ahead I mean how do we see at the profitability and ROE numbers from now on?

Tribhuwan Adhikari: It could impact leading to volatility especially with respect to the provisions, COVID.

Sudipto Sil: Actually what volatility you had seen especially that was in the year little bit of in FY2020 more pronounced in 2021 and 2022 and 2023 and a large amount of that volatility was pertaining to the ECL provisioning that has been quite fluctuating and that probably was the reason because of the COVID impact on the asset quality. Now if you see asset quality has remained stable barring of course this recent quarter where there has been an uptick because of some technical matter. Apart from that the quality of assets in the most sticky portion that is the project loan which actually is lumpy and led to the volatility that has come down significantly. So if you remove the ECL portion and you focus on the operational aspect of margins, then you will see that margins have been fairly stable in the 2.3 to 2.35 range for the last three years and last year especially it was around 2.41. So margin stability on the operational side despite intra quarter volatility on a year on year basis has been fairly stable. The one thing which had resulted in the reported number volatility was the impact of ECL provisioning, which I agree with you has been quite volatile moving from quarter to quarter. That is now likely to stabilize.

Aniket Kulkarni: Okay and another question is, could we talk a bit about your efforts regarding diversifying your liability. I mean you had said previously that the efforts will help you tackle the interest rate volatility in a better way, right so can you just give some colour on this.

Sudipto Sil: Yes see diversification of the liability profile as I mentioned is part of last 3-4 years we have been striving towards it, 4-5 years back there was a huge amount of dependence on the wholesale debt market. From there, we have reached a stage where we have more or less, I mean diversified the liability in different pockets. The wholesale debt market continues to be the dominant portion but apart from that we have moved into the bank, bank loans market. We have done an ECB. So geographically also we have been able to diversify. We have put a large amount of focus on our retail deposit franchise, which I am still telling that we have not even scratched the surface of the possibility. There to diversify between the wholesale and the retail and largely if you see, we have tried to structure the liability profile in such a way that 50% roughly remains on the floating rate side and approximately 50 or 60% remains on the fixed rate side. So that interest rate movement also gets more or less hedged by this. So this will be a continuous process. Of course the wholesale debt market, bond market NCD will be a dominant one more so because now you are aware that we are getting a space opened up because of the fact that one large player is moving out of the bond market. So there will be an improvement in the yields. There will be some benefit that we will be getting there.

Aniket Kulkarni: Okay and just one last data point question can you give any sort of estimation on the expected provisions for the entire year given that we have seen a slight spike in the NPL in Q1 but for the entire year can you given some idea on the provision number which we can see?

Tribhuwan Adhikari: Well 40 to 50 basis points the credit cost that will be an indication.

Aniket Kulkarni: Okay thank you so much for answering my questions and best of luck for the coming quarters.

Moderator: Thank you. We have our next question from the line of Gao Zhixuan from Schonfeld. Please go ahead.

Gao Zhixuan: Thanks for the opportunity. I just want to clarify something because I was looking at your slide on the yield and cost of funds slide? It states that for the Q1, the yield is at 10.15% and the cost of finance at 7.62% right and then I just looking at the at the Q4 2023 full year number in your previous slides for the full year 2023 the yield is at 10% and the cost of fund is at 7.63%, which is broadly similar to what we are seeing in the Q1, but our margins went up from 2.4% for the full year of last year to 3.2% for the Q1 of this year so I am just wondering what am I missing here because our cost of fund is the same versus last year and now you went 15 basis points versus the full year of last year per our disclosure our margin went up by 60 basis points?

Tribhuwan Adhikari: Yes actually what you are looking at is a spread between the cost of borrowed funds and the yield on a particular date. It is not based on monthly averages. When you are talking of margins, it is actually a derivation of the net interest income on each and every day of interest expended and interested collected so that actually is what explains the difference if you look at there has been sequential improvement in the margins also from 2.93 to 3.21 that is how it should be seen sequentially not year-on-year.

Gao Zhixuan: So okay let us say if I look at a number of 10.15% yield on advances of portfolio how do your guys calculate a number?

Sudipto Si;: It is on the last date of the quarter. That is the weighted average yield on advances on the last date of the quarter.

Gao Zhixuan: Understand got it. Thanks so much.

Moderator: Thank you. We have our next question from the line of Ketan Gujarathi from Quantum Advisors. Please go ahead.

Ketan Gujarathi: Congratulations on the appointment Sir. I wanted to understand that when you were appointed and so what kind of strategy you were asked to pursue, let us say a LAP for example because I take your point that this year your NIMs are pretty much safe around 2.5% plus but going forward I think and again the pressure will come on the home loan side so that time we will be even hungry for yield and at that time will you be able to grow your LAP and what is your strategy because I see the last seven to eight years the NPAnumbers were much higher than like the home loan book so can you just given me colour on how you plan to protect your NIM going forward and also the LAP strategy?

Tribhuwan Adhikari: Well the strategy we have got to focus on retail of course. Yes on the project front we will be choosy as we have been in the past. We will be picking. We will be looking at because we have been facing pressure of NPA on the project loan front so we will continue to be picky and choosy on the project loan front and the other category is quality focus along with profitability we will be we will be looking at the other categories on that basis. That will be the overall strategy for this year.

Ketan Gujarathi: Okay and one more question on the NPA front again so I am purely comparing based on peers? A lot of peers they have also reported a very high number probably higher than us as well but either they have taken some correction measures either a write off or a resolution or a recovery, but our numbers are still very sticky? I am saying even barring the technical glitches that we assume? Let me take FY2023 number we are still at a very elevated level of NPA so can you just give us a guidance because at the end of the day when we are running a company we need to understand how do I take this assets because if I take the equation numbers also the GNP numbers are not really coming forward as predictable? They have been same as it is even if our asset base has grown so just can you help me understand because I am seeing from a two year outpoint of view so just can you give me some comfort or understanding how we are to move forward?

Tribhuwan Adhikari: Ketan as regards to the NPA front let me confess, we have not been very aggressive on OTS or roping in our ARC so far so that is one area we are definitely going to look at this year. We will be exploring all avenues. So far our focus has been on going through the normal channels of convincing the borrower to repay or at the most sarfaesi action, etc., so these two areas about OTS and ARC needs to be explored. We have come out with an ARC policy within the organization so that is one. The other we will also be looking we have not written off much in the past few years so we will also be looking at write offs in the coming quarters, technical write off.

Ketan Gujarathi: Thank you. That is it from my side.

Moderator: Thank you. We will take our next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity. Sir I just wanted to understand, I mean in terms of your NIMs and ROA, so what sort of sustainable range we are looking at in both these fronts?

Sudipto Sil: I think we have just given some kind of an indication that is around 2.6 to 2.7 to 2.8 that can be a broad range that is as far as the margins are concerned on a full year basis. ROAs generally will be in the 1.3 to 1.4 on a blended all assets basis.

Deepak Poddar: So clearly I mean the NIMs of 3.25% this quarter and even ROA of close to 2% is not sustainable right?

Sudipto Sil: I will not use the word not sustainable but only thing when we are talking about numbers, I am focused only the full year numbers.

Deepak Poddar: Understood and on the growth part, I think we are up 8% right and now with the problem solving and June onwards I think you are seeing improvement in disbursement so what sort of loan book growth we are targeting this year? I mean about 10% to 15% or somewhere in that range?

Sudipto Sil: Around 12% to 15% broadly.

Deepak Poddar: Fair enough understood. That is it from my side Sir. Thank you.

Sudipto Sil: On a full year basis yes.

Deepak Poddar: Yes understood all the very best.

Moderator: Thank you. We have our next question from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Thanks for the opportunity Sir. Just two questions from my side. One is when I look at your presentation for this quarter, you have given a blended cost of bank borrowing and NHB so could you please split between what was the cost of bank borrowings and what was the cost for an NHB borrowing and then I will take up my next question?

Sudipto Sil: The NHB borrowing cost is around 5.8%. The balance you can find out.

Raghav Garg: Thanks and Sir the second question is that if I see that from the bond markets you are taking money at around 7.7% to 7.8% and you are outstanding cost of NCD borrowing is somewhere around 7.5% you also just highlighted that there will some maturities in this year so Sir is my understanding correct in saying that the kind of maturities that are coming up in this year are costing somewhere around 6.5% and to the extent that there is a differential of 90-100 basis points that is going to get repriced and that will be the impact on the overall cost of borrowings?

Sudipto Sil: See your first assumption of the rate at which we are borrowing I think we have done 10 years at 7.65% and not at 7.8% so that is the one thing and as I mentioned some improvement can be seen once the yield curve stabilizes because right now the yield curve is flat so five year and 10 years everything is almost selling at a same price but I would say normalization of the yield curve which could give some benefits, yes, of course there will be redemption which will come up and redemptions of past debt including debt raised at higher levels and at lower levels will be coming up regularly in fact throughout and there could be some differential which could get added but on the other side, there is a portion of the floating rate book also in the liability side which might give us some benefit once there is a little bit of visibility on the I would say topping off of the yield curve.

Raghav Garg: Right Sir on the whole how would you expect your cost of liabilities to move? I mean, would there be any significant expansion?

Sudipto Sil: At the beginning I mentioned. Right now we are borrowing very close to the weighted average cost of funds on the book side so I would feel that it will largely remain stable within a band of say maybe 10 to 15 basis points.

Raghav Garg: Fair enough. Thank you. That is all from my side Sir thanks.

Moderator: Thank you. We have our next question from the line of Shubhranshu Mishra from Phillip capital. Please go ahead.

Shubhranshu Mishra: Sir if can you speak on the organizational structural changes that happen in March and April and these technical glitches, it just seems that a large organization is not geared up and does not have any backup plan for any kind of technical glitches which led to a slow disbursement and one question Sir why do we always want a CEO from LIC who is nominated who may not have the requisite skills for housing finance Sir? Why do not we get a professional CEO who knows how to run the housing finance business and you can have the LIC nominee on the board so if you could answer these questions?

Tribhuwan Adhikari: That is because the LIC CEO that has been the norm and tradition and I think LIC would being the largest shareholder I think wants to have its nominee as MD and CEO so that is all I can comment on it. They take the call so it is on LIC to consider what you are suggesting. As regards to the restructuring, well the restructuring was held. It was necessary so that we could go down to the last mile and reach the customer. Expansion of offices, 50 new offices opened mostly in tier two and tier three towns again to increase our reach and also the restructuring of the cluster offices as we call again was taken with a view to streamline our basically loan sanctions and disbursement operations so that they happen faster, TsAT is reduced, customer satisfaction improves so that was on the restructuring front and whenever, naturally, whenever changes do take place in an organization there is bound to be some amount of distribution. As on the technological front, technologies are a boon but sometimes things do go wrong. Yes, we have learnt our lessons. We have learned our lessons. I am very sure about that and we have stabilized. As I said we have stabilized June onwards. We are totally stable on the technology front and going forward I see that whatever we have done whether on the technological front or on the organizational restructuring front that is going to yield us excellent dividends.

Shubhranshu Mishra: Sir this credit cost guidance of 40 to 50 BPS when we have a large proportion of our book for salary segment seems totally out of whack Sir is this mostly done to cater to the project loans and LAP and so on?s

Sudipto Sil: Yes you are right and it is likely to probably come down.

Shubhranshu Mishra: Come down to what Sir?

Sudipto Sil: I cannot give a number right away, but it is likely to come down but yes the trajectory is of a declining trend.

Shubhranshu Mishra: Sir declined by how much 50%, 10%, 20% how much?

Sudipto Sil: If you look at the current quarter credit cost it is around 5%. It is around 50 basis points. Last year it was 78 basis points for the full year. I think the trend is quite visible.

Shubhranshu Mishra: Right Sir thank you Sir.

Moderator: Thank you. We have our next question from the line of Vipulkumar Shah from Sumangal Investment. Please go ahead.

Vipulkumar Shah: So I have a question regarding the tenure of our CEO? I can understand that LIC can nominate its own CEO but tenure of CEO is generally two to three years in our organization? Every two to three years you get a change in CEO so do not you think that disturbs the organization and the CEO should have a longer tenure?

Tribhuwan Adhikari: Well, as I said this is a call which LIC has to take. This is a norm you can call that they nominate their own MD and CEOs and MD and CEO being LIC employees of course, as you would have seen the nomination is for a period of five years, but depends on the superannuation of the nominated MD and CEO so if he superannuates in two years, three years, whenever he superannuates he has to leave. So again as I just said this is a call which LIC needs to take.

Vipulkumar Shah: No but for a large organization like LIC Housing Finance, you will take at least one to two years to get accustomed to the entire nitty gritties of the business and when that happens the CEO gets transferred so I think it is affecting the performance of the company? I am a shareholder? I am not an analyst so just please convey my feelings to the LIC?

Tribhuwan Adhikari: Sure point taken. I will be convening the message.

Vipulkumar Shah: Sir another question is regarding your opex so if I see the slide, in 2019 it was 2.74% and now it is 4.36% for the last financial year so what is the reason for such sharp jump in the opex over a course of four years and how do you plan to correct it?

Sudipto Sil: See, the opex is largely because of the IT intervention which we have done. As you would be aware in the last one and a half years, a lot of investments have gone in the IT as part of the project RED, which we have done in association with the Boston Consulting Group. How the opex gets rectified, of course, with higher volumes, better margins and better profitability. It is an investment rather than an expense.

Vipulkumar Shah: So can you quantify what was the one time impact of that expense and going forward what should be the range of opex we should expect?

Sudipto Sil: The opex going forward it will be more or less on a trend you have to see on a three to four year basis because obviously when there is a large investment and large intervention done it obviously can distort a particular quarter or particular year. It has to be seen on an average of say the last three years and whatever is outcome of the last year that is going to be a stable number going forward.

Vipulkumar Shah: No, but you have not quantified it Sir so what should be the opex going forward for next three years?

Sudipto Sil: Cost to income ratio if you see I think that is more important being a finance company. It all depends upon the cost to income ratio. Cost to income ratio largely is around 15% to 16% range. It will come down but it will take maybe a couple of quarters or a couple of years to establish a trend.

Vipulkumar Shah: Lastly, Sir, regarding project loans so over the years we are facing a lot of difficulties in this area so is it not better to leave that segment all together where I think we do not have the necessary expertise so what are your views?

Sudipto Sil: That has been articulated at the beginning of the call regarding our strategy in each of the product segments has already been articulated.

Vipulkumar Shah: I failed to understand what you are trying to communicate Sir?

Sudipto Sil: What we have already articulated that yes, all segments will be approached with caution in mind considering the fact that whatever is the benefit or whatever is the returns that is always a risk adjusted return.

Vipulkumar Shah: But I do not think we have got any returns from this particular said vertical? All we have got is NPA only and that has negatively impacted the results of the overall company over three years so what is the point in continuing the business which is giving you negative return?

Sudipto Sil: The overall share of project loan for your information is less than 4% and it has been actually coming down from 8% to 4% in the last three to four years.

Vipulkumar Shah: Thank you.

Moderator: Thank you. We have our next question from the line of Nilesh Jethani from BOI Mutual Fund. Please go ahead.

Nilesh Jethani: Thanks for the opportunity. Sir two questions from one my side. First is the repayment rate seems to be slight lower in Q1 at 13% is the new normal or it is one time and what sustainable number we can assume and second question is on the direct loan sourcing? It seems to be little higher at 17% so how to look at this number going forward?

Sudipto Sil: I think for all practical purposes, the Q1 numbers may not be exactly reflective because the business volumes have been on the lower side. As far as the repayment rate is concerned, that is actually the prepayment I think what you are referring to. That is a function of liquidity in the external market, but it is generally is between say 11 to 30 or thereabouts.

Nilesh Jethani: So can we expect this number to inch up?

Sudipto Sil: No that depends on the liquidity situation in the economy. Normally the variation is not much.

Nilesh Jethani: Okay and direct loans sourcing of 17%?

Sudipto Sil: So that as I mentioned, the Q1 numbers themselves were muted in terms of disbursement. So probably that is not a trend to build upon.

Nilesh Jethani: Okay got it. Thank you.

Moderator: Thank you. We have our next question from the line of Lalitabh from Anvil. Please go ahead.

Lalitabh: Thanks for the opportunity Sir. Just wanted to understand our yields have moved up very smartly in Q1 so if you can please share the current yields on the non-individual home loan part which comprises around 16% of the home loan book of the total loan book so what is the yields that we are currently enjoying there and what is the outlook that you are expecting for FY2024?

Sudipto Sil: So you are asking about the non-housing individual. Non housing individual incremental yield in the quarter was around 9.75 and on the non-housing corporate it is around 11.88.

Lalitabh: Okay fine and so the blended comes to around 10.15 and if I am taking rate that you are giving 8.5% on your website, then somewhere some segments we are seeing a very healthy kind of yield?

Sudipto Sil: I am not able to understand your query Sir.

Lalitabh: So I want to understand that if I am saying 83.6% of our book is individual home loans which on a ballpark number if I see the rates to be 9% yield, then to reach at a 10.15%yield, the rest of the book should be somewhere around 13% to 14% plus yields?

Sudipto Sil: No not at all. In fact, I do not know where you have actually got the numbers from. If you see the website, it very clearly mentions that the starting yield is a particular number. It goes according to the CIBIL score. That is to be seen, number one. Number two, you have to annualise it. Then you will get a proper number so a mix of portfolio on the retail side also does not mean that every loan is being sold at the lowest rate.

Lalitabh: Right, correct okay fine. I will take this offline. Thank you.

Moderator: Thank you. We have our next question from the line of Umang from Edelweiss. Please go ahead.

Umang: So firstly, I just wanted to understand this cost improvement that you talked about that you are being the largest player, that is true and you will have some bond benefit, but I wanted to understand this benefits? We are already looking at this kind of benefit or we are hoping for this kind of benefit that will kick in?

Sudipto Sil: I think it has already started happening.

Umang: So that is why we are looking at rationalizing our cost of borrowing and probably move to a better linear portion right?

Sudipto Sil: Yes.

Umang: Okay and Sir secondly on the yields, I understand that there were some glitches but still disbursement, I understand there was some reorganization that has happened, but disbursements are they still happening at the original yield or again we are going to compete with the market now that the other largest player probably we would have a benefit over here so I just wanted to understand on the yield front also?

Sudipto Sil: No. Can you kindly be a bit more clear, not able to…

Umang: So what I am trying to ask is that the yield portion so whatever increment disbursement that has happened in June month almost 50% of our entire disbarments if this was happening at par to industry or are we the ones who are now setting up the benchmark? As you rightly mentioned that now you are the standalone housing finance I wanted to understand from your competitive standpoint?

Tribhuwan Adhikari: As far as yields are concerned I think we have to be competitive. We are in a competitive business, yes HDFC housing has exited the space but it is still there in the home loan lending market. Yes as a large player we would be looked upon to set the benchmarks but again, yes, we have to be competitive. We have to look all our peers and ensure that that we are competing on the yield front also with them.

Umang: Okay Sir perfect. Thank you so much. That is helpful.

Moderator: Thank you. We have our next question from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Sir thank you for allowing me a follow up question, just one clarification I wanted given that that your reported yields today which I recall was 10.15 versus that when I look the calculated yields for the full year what we have seen over the past few quarters that the calculated yields somehow try to catch up with your reported yields which Sudipto sir explained as last day of the quarter so is there further room even without taking more PLR hikes which I am guessing we have not done any more PLR hikes after the one that we did in April is there more room for further expansion in yields from here some repricing from the back books which can come in?

Sudipto Sil: No I think all the repricing on the asset side has been more or less complete and going forward.

Abhijit Tibrewal: Even from the back book?

Sudipto Sil: We are not expecting any rate hikes further. Some back book repricing can be on lower side also some rewriting could be there, but on the higher side the repricing unless there is further repo hikes it is probably at this point in time I think there is a pause.

Abhijit Tibrewal: Got it. Sir one clarification here so given that there are no more rate hikes on the annual and from what I understand typically when newer loans get originated, they are usually at a 40 to 50 basis points lower rate than the back book so is it fair to say that at least the yields in terms of this 10.15% number that we are seeing has peaked out and should be incrementally at least start coming down?

Sudipto Sil: No Abhijit I am not able to understand if you can kindly clarify.

Abhijit Tibrewal: Yes all I wanted to understand is given that I mean the yields today is 10.15 again blended and given that what we are given to understand the incremental home loans that happened are usually at a rate which is anywhere around 40 to 50 basis points lower than the back book?

Then would it be fair to believe as you keep building your home loan book over the next one year this yield can start coming down from here?

Sudipto Sil: Still not able to understand. Generally it is a market driven.

Abhijit Tibrewal: No problem. I may be reach out to you offline. Thank you so much. Best wishes to you.

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

Tribhuwan Adhikari: Thank you all. Thank you all for the interaction. In conclusion, I would like to assure you that we are now on a new path of growth. All the structural changes are in place. Our new technology platform is up and running. A lot of activities have already been done in Q1 and the total focus is on growth. This will continue and I am looking forward to a decent growth in the coming quarter Q2. Look forward to your support and continuous interaction. Thank you all.

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