



“LIC Housing Finance Limited  
Q1 FY2019 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the LIC Housing Finance Q1 FY2019 earnings conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Praveen Agarwal from Axis Capital Limited. Thank you and over to you Mr. Agarwal!

**Praveen Agarwal:** Thank you. Good morning everybody and welcome to this earnings call for LIC Housing Finance. We have with us Mr. Vinay Shah, MD & CEO and Mr. Sudipto Sil, Deputy CFO to discuss the quarterly results. I would request Mr. Shah to take us through the key highlights of the quarter, post which we will open the floor for Q&A. Over to you Sir!

**Vinay Shah:** Good morning and welcome to the post earnings conference call of LIC Housing Finance. As you would be knowing LIC HFL declared its Q1 FY2019 results last Friday. With effect from this quarter that is Q1 FY2019 in Indian Accounting Standards is applicable for housing finance companies accordingly our financials have been presented in accordance with the Ind-AS and previous year’s figures have also been restated wherever required to present a comparative picture. The key highlights of the results are as follows:

Revenue from operations is at Rs.4019 Crores as against Rs.3027 Crores for the corresponding quarter of the previous year, a growth of 11%. Outstanding loan portfolio is at Rs.168652 Crores against Rs.147050 Crores as on June 30, 2017, reflecting a growth of 15%. Individual loan portfolio is at Rs.160265 Crores as against Rs.141439 Crores up by 13.4%. Disbursements are at Rs.9600 Crores as against Rs.8700 Crores for the same period in the previous year, a growth of 10%. Net interest income at Rs.980.03 Crores as against Rs.919.37 Crores is up 7%. Net interest margins at 2.34% as against 2.52% for the same period last year. Profit after tax for the quarter stood at Rs.567.94 Crores as against Rs.479.65 Crores a growth of 18.41%.

Pursuant to the introduction of Indian Accounting Standards companies are required to report expected credit loss or ECL on their loan assets and provisions thereon. Accordingly the provisions for ECL for the current quarter stand at Rs.160.75 Crores against Rs.203.97 Crores for the same period in the previous year. The asset classification as per the new accounting standards is now classified as stage I, stage II and stage III exposure at default EAD.

The quarter under review saw a significant event in the way of beginning of a rate hike cycle initiated by RBIs increase in REPO rates after a gap of four and a half years followed by another rate hike this month impacting the wholesale rates as well as retail lending rates.

On the business front, we have disbursed about Rs.9600 Crores as compared to Rs.8700 Crores for the corresponding period at a growth rate of 10%. Overall we have seen good growth from some locations in central, eastern and some part of northern and southern regions of the country.

Overall loan sanctions reflect a good pipeline build up especially in the project loan category. The loan sanctions in the retail category recorded a growth of 13% thereby indicating a pickup in disbursement growth in the retail category in coming quarters.

On the affordable housing front under the PMAY CLSS scheme the company continues to do well. During the first quarter the company recorded a disbursement of more than 7100 accounts in this segment as against about 2000 accounts for the corresponding period of the previous year with an average ticket size of Rs.18 lakhs. In value terms the disbursements in this segment grew nine fold to Rs.1300 Crores as against Rs.142 Crores in the previous quarter.

As a share of incremental disbursements in the retail segment it works out to 17% in volume and 15% in value terms. You may recollect that the share of this segment in our overall business in FY2018 was 11% in volume terms and about 8% in value terms. We therefore continue to be confident of growth in the segment this year as well. As part of our current year's growth strategy we have opened 24 new marketing offices, which works out to roughly 10% of the existing numbers.

Most of the offices have been opened in places where we did not have an outlet and a large number in Tier III and IV locations. This is the largest branch expansion initiative of the company in recent times and will support its growth plans.

During the quarter, we have launched a new distribution channel called direct marketing executives to augment our sales network and to synergize our marketing efforts especially with respect to project funded by us.

During the quarter, we have also launched a mobile application based evaluation module for faster and better quality assessment of properties and projects funded by us. In terms of asset quality as mentioned earlier in line with the Ind-AS the company has transitioned to the expected credit loss model based on exposure at default. The loss provisions are in line with the historical loss rates of the company, which is one of the lowest in the industry. As a result the provisions have reduced on a year-to-year basis from 161 Crores in Q1 FY2019 as against Rs.204 Crores in Q1 FY2018.

In my earlier interactions, I had mentioned that we are working resolutely towards recovery of delinquent accounts. I am happy to share and would like to specifically highlight a recovery of a large build and loan default where we had successfully auctioned the underlying asset, recovering the full 100% of the principal amount and nearly the entire portion of the interest. With this we are confident of more such recoveries in coming quarters.

On the retail side, there has been a seasonal increase in NPAs, which we are confident of reducing in the coming quarters. On the cost of fund side you are aware of the sharp increase on the interest rate scenario and the rate hike cycle initiated by RBI through REPO hikes of 50 basis points in two tranches.

Despite such increase in the system, the company was able to maintain its weighted average cost of funds with a marginal decline of 1 basis points over March 2018 figures through active liability management. During the quarter under review the overall spreads have shown a sequential improvement by about 10 basis points between March and June 2018.

The rate hike cycle has required the company to put to also review its PLR. The company hiked its PLR by 30 basis points in two tranches in April and June. A further 20 basis point hike has also been made this month making it a total 50 basis points PLR hike, which will be on nearly 1.4 lakh Crores of back book and for all the new disbursements. As only a part of the rate hike was during Q1 we expect a larger spread benefit in Q2 and Q3.

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

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Prakhar Agarwal from Edelweiss Securities. Please go ahead.

**Prakhar Agarwal:** Sir couple of questions from my side. First is on asset quality, what was the quantum of corporate developer loan that we recorded this quarter?

**Vinay Shah:** Can you speak a bit little loudly please?

**Prakhar Agarwal:** What was the quantum of corporate developer recovery that happened this quarter?

**Vinay Shah:** It was about 40 Crores.

**Prakhar Agarwal:** Sir despite that we have seen some rise in corporate developer book on a sequential basis when I look at your gross NPA numbers so what was the slippages and why was that which segment if you could highlight some part of that?

**Vinay Shah:** Actually this some small accounts have gone into, but no major account has gone into delinquency this quarter as far as projects are concerned.

**Prakhar Agarwal:** If I look at your numbers around 100 Crores of increase in gross NPA on an outstanding basis on corporate developer side. Now when I take 40 Crores of recovery that has happened post that around 140 Crores of slippages would have happened in gross NPA on sequential basis was that an impact of Ind-AS or something else because of that?

**Vinay Shah:** Some part of it was on account of an Ind-AS because of reclassification of assets as per the EAD and there has been a recovery as you are very rightly mentioned there was a recovery of around 40 Crores principal on which as we mentioned in the opening remarks there was also a recovery of almost the entire interest portion on that asset so there has been some resolution on the corporate loan side as well.

- Prakhar Agarwal:** Sir individual side also when I look at your rise in gross NPA number so while sequentially we see on Q1 basis that there is some seasonal impact but the quantum is relatively higher on that part as well?
- Vinay Shah:** See the quantum partly could be attributed because the base itself has increased so the amount of increase itself could be reflected through that, but yes there has been an increase and we are working towards it. There is a seasonality which has also impacted though the seasonality this time around between March and June as compared to the March and June of the previous couple of years has been a little less as compared to the March and June in previous so it has been a little less but of course yes it is an increase and as we mentioned we are working on it and another thing that can be mentioned here is that if you actually look at post Ind-AS the actual loss rates, which has mentioned in the which is basically the ECL on the exposure at default that has actually been coming down which reflects the recoverability of such accounts.
- Prakhar Agarwal:** Sir secondly when I look at your ECL framework that we are talking about in terms of outstanding basis when I am looking on the stage III provisions which is somewhere close to around 32% when I compare it to players it is relatively on a higher side anything to read into that as well so why we have kept on a higher side on that segment?
- Vinay Shah:** That is to be slightly on the conservative side. It is an additional buffer, you can say level of comfort that we have maintained, but if you actually look at it the recoverability again we would like to highlight is very, very high there going by the historical loss rates in the company which has been witnessed over the last several decades and even as recently as in the last couple of quarters the actual loss rate is much, much lower.
- Prakhar Agarwal:** Sir on margin side despite these sorts of recovery that we have seen on corporate developer and 20 basis point of rate hike that was effectively for two months that we have seen this quarter your margins there was some pressure on that. So why is that so?
- Vinay Shah:** It is actually this Q1 fully it has not got translated. The full impact of the 30-basis points will come fully in Q2.
- Prakhar Agarwal:** Was there an impact of corporate recovery that happen through or there was not any?
- Vinay Shah:** See actually the corporate recovery will not come in one quarter because after Ind-AS it will have to be apportioned.
- Prakhar Agarwal:** So there would not be any impact on margin because of interest income reversals also this quarter?
- Vinay Shah:** No it is not because of that and actually if you look at it there has been sequential improvement in the spreads between March and June. Generally between March and June, we see a dip but just to refer to your point there has been some impact of the rate hike on the asset side, due to which

we have seen some improvement in the overall yields between March and June and the one hike that we had done in the month of April that has given some results there was another hike, which we had done in the month of June, there was absolutely very miniscule impact of that happening in Q1 so the Q1 basically was based upon about a one and a half month impact of the first rate hike that we had done.

- Prakhar Agarwal:** Where do we expect this margins to settle any guidance on that?
- Vinay Shah:** See if you look at the total increase in the PLR that has been affected in the first three four months of the financial year to the tune of almost 50 basis points and this will have an impact on almost 1.4 lakh Crores of back book so that certainly has the impact of pushing up margins I would say quite meaningfully in the next couple of quarters.
- Prakhar Agarwal:** Thank you so much. I have couple of more questions, I will come back in queue. Thank you.
- Moderator:** Thank you. We would take the next question from the line of Prashant Poddar from ADIA. Please go ahead.
- Prashant Poddar:** Sudipto just a clarification so the rate hikes of 10, 20 and 20, can you just tell me the exact dates first it is possible?
- Sudipto Sil:** Yes, the first was in April that was the first hike was in April, the second was in middle of June and the third was in August just a couple of weeks back.
- Prashant Poddar:** So which essentially means that the whole 20 basis point increase that happened in the end of June or mid of June or end of quarter that had no impact literally for the first quarter?
- Sudipto Sil:** Yes, that did not have any impact.
- Prashant Poddar:** While your cost would have continued to go up as it is visible in your interest expense going up by 12%?
- Sudipto Sil:** Correct.
- Prashant Poddar:** So from current levels on a just pro-forma basis your spread should increase by about 20 basis points for the second quarter from the first quarter?
- Sudipto Sil:** I would not like to put an exact number to it, but yes it certainly has that kind of a possibility, yes.
- Prashant Poddar:** Just a clarification on that as well. So this kind of 10, 20 and 20 basis point increase in a very short period of time has not been seen by us for quite some time particularly in mortgages segment where we expected the industry to be much more competitive, it looks like it has been

very sanguine. So can you help me understand how is competitive dynamics playing out in this segment?

**Vinay Shah:** Prashant, every hike has been done after taking into consideration the competition also. If I can say about the new loans probably still we are maybe 5 basis points or so lesser than most of the leading companies only one of the banks is probably around the same level as we are giving and back book effect of course it will be there to there as Sudipto said on the full 1.40 lakhs portfolio.

**Prashant Poddar:** One more question on the loan growth itself individual loans, not the loan growth the disbursement growth was pretty muted at about 5%, 6% for the current quarter while it also has an impact of the Pradhan Mantri Awas Yojana scheme so if we take that out it looks like a flattish of the marginal decline in disbursement if some of the sense it has actually went ahead and got disbursements driven by this particular scheme. What is happening and if you look at other HFCs or even banks to that extent the growth rates look slightly better.

**Vinay Shah:** Prashant, two things I would like to say, number one if you take the only pure home loan growth rates that was around 9% so what happened was that probably some noncore portion gets figured into this wherein it was showing very less growth or nearly muted there so the overall came to 5% but if I see the actual home loan growth rate that is around 9% that is number one.

**Prashant Poddar:** This is disbursement?

**Vinay Shah:** I am saying only about disbursement. Secondly is as I said in my address probably going ahead we are seeing a good growth in sanctions. Sanctions grew by about 13%, 14% for the home loan so going ahead the new branches that I talked about we has a very focused attention on them. Our first aim was to open all these 24. It should not linger on for six months or so, so all these offices have been opened their operational, business has started and PMAY also as I said our PMAY portfolio, I said the average ticket size is about 18 lakhs so we are not too much in to the lower segment where the ticket size, very few numbers are there in that. So probably a more this thing will help disbursement growth in the coming quarters and thirdly I mentioned about the new channel of DMEs those people have been directly targeted to focus on retail loans at the projects where we have financed the developers, so individual loans and those projects would be the responsibly of this particular people.

**Prashant Poddar:** Sir quickly on asset quality both individual and non-individual, one individual is an easier one it is a smaller book and despite that one recovery that you talked about the GNPA's actually has gone up and I could not understand the technicality behind Ind-AS leading to recoveries happening over a period of time rather than one go. Sudipto can brief about the recognition of this?

**Sudipto Sil:** Actually earlier as per the existing NHP norms the moment account goes into NPA you stop accusing interest on that. So whenever there is a recovery your recover the entire amount, there is a reversal and there is a recovery also in one single shot, but under Ind-AS even on the

delinquent accounts you are allowed to accrue interest and when the recovery actually happens it does not happen in a lump sum that is what I meant when I said about the recognition of the interest portion.

**Prashant Poddar:** So to that extent on the NII the impact will not be large, but gross NPL numbers would have come down immediately?

**Sudipto Sil:** Yes.

**Prashant Poddar:** So again going back to the previous question which an analyst mentioned about non-individual loans NPLs going up if we adjust that I think that loan was 60, 70 Crores or so as NPLs?

**Vinay Shah:** Total recovery was principal was 40 total recovery was about 55 Crores.

**Prashant Poddar:** So reduction of 40 and then the more increase of 100 or more Crores so anything to read into the quality of non-individual loans or any stress and the potential stress in the system that we should be worried about?

**Sudipto Sil:** As such I think there is nothing exceptional because in the last couple of quarters also we have seen slippages, which happened and they can recovered during the year itself there are some signs of early recoveries also which happen, so as of now there is no such specific reason and the methodology of recognizing and EAD, exposure at default has changed incrementally so that would also have some impact in the numbers.

**Prashant Poddar:** So you have 230 live accounts in builder segment of which how many would be entailed last I remember it was five, six switch for NPLs?

**Vinay Shah:** Yes big ones continue to be the same five to six only.

**Prashant Poddar:** So these 230 are all big you are saying.

**Vinay Shah:** Yes.

**Prashant Poddar:** In the individual you said the seasonality impact was lesser this time but if we look at on a year-on-year basis, which takes out the seasonality the NPLs have actually gone up from 0.4% to 0.8% we have not seen that kind of seasonality or Ind-AS impact in any of the other HFCs if you can help us understand a little bit of that as well and potential recoveries in this segment as well and that would be my last question actually?

**Vinay Shah:** Prashant, it has gone up but as Sudipto said last year also if we compare March to June it had shown a 0.35 points basis rise and current year it is about 0.4 but we are looking into it and I am very hopeful that coming quarters this numbers as is. In fact internally speaking, I am targeting a less than 1% GNPA as at the end of Q2 that the internal target that has been set and we have



reinforce in fact the recovery teams also and I am very sure that Q2 is going to be much, much, much better.

**Prashant Poddar:** Sorry and one last question. On noninterest income there is a strong growth of 54% is it the things that you talked about in terms of change a fees as well as focused insuring all your homes, home loans is it that which is leading to this increase or it is will be just an one half?

**Sudipto Sil:** The fee income, which we had discussed in the last couple of, calls that is beginning to derive better incomes.

**Prashant Poddar:** Thank you. That is all. Thank you very much Sir.

**Moderator:** Thank you. We would take the next question from the line of Ayush Mohta from CD Research. Please go ahead.

**Ayush Mohta:** Why have the NIMs fallen this quarter?

**Sudipto Sil:** NIMs.

**Ayush Mohta:** Net interest margin.

**Sudipto Sil:** Actually if you look at the net interest margins you are comparing it with on a year-on-year basis if you recollect last year we had actually started reducing our interest rates following there was a lot of I would say competitive intensity because of that in the second half of the year post July we had reduced our PLR by 20 basis points so what we are comparing today is the Q1 of last year vis-à-vis the Q1 of current year. Now once we are able to recover the margins post the PLR hikes I think the margins will go back to where it was in the previous year before the PLR cuts.

**Ayush Mohta:** No but if the interest it reduced last year then that is sort of increased in this quarter right?

**Sudipto Sil:** Actually sequentially at the beginning of the call we mentioned sequentially there has been an increase in the spread between March and June but if you compare it with the June numbers with current June numbers then it has not come up to that level, but between March and June there has been an increase in the spreads.

**Ayush Mohta:** Are we seen an increase in the interest rate now? Has the lending rates been increased this quarter?

**Sudipto Sil:** Yes actually we have increased it again in the month of August, which will be in Q2 yes.

**Ayush Mohta:** By how much sir.

**Sudipto Sil:** That is by 20 basis points.

- Ayush Mohta:** Sir why has your share of LAP increased?
- Sudipto Sil:** Share of...
- Ayush Mohta:** The developer loans.
- Sudipto Sil:** Builder loans actually have remained by and large at the levels of March. It was 4.8. Right now it is around 5% there has been some increase in the builder loans and we had mentioned in our previous interactions also that post RERA we are looking at the builder loan segment afresh considering the better quality proposals which are now coming.
- Ayush Mohta:** And Sir what about loan against properties?
- Sudipto Sil:** They are around the same levels actually, but very marginal increase.
- Ayush Mohta:** It was 30% in Q1 FY2018.
- Sudipto Sil:** Actually that noncore segment consists of LAP and LRD both so there has been a conscious decision and the increase whatever has come has come in the LRD. LPA we have not done much.
- Moderator:** Thank you. Next question is from the line of Dhawal Mehta from Somerset Capital. Please go ahead.
- Dhawal Mehta:** Good morning Sir. Just a couple of clarifications on the ECL; given that the probability of loss given default anecdotally is I presume low is it fair to assume that going forward our provision cost on a recurring basis will be structurally lower?
- Sudipto Sil:** Yes that is what it looks like right now that after the implementation of the Ind-AS the way we use to look at NPLs earlier and make a provision based on a rule based formula irrespective of the underlying securities, irrespective of the asset coverage ratio and irrespective of the ultimate recoverability experience so those were never taken into account. Now these things are taken into account, the security value, the number of times of security covered as well as our own experience and the track record and recoverability so all these things are taken into consideration and as a result of which we have seen the provisioning levels that is called the loss provisioning levels under the ECL that has been coming down.
- Dhawal Mehta:** Given that I would imagine that the whole idea is to move from a rule based descriptive kind of system one that is more realistic and it is more driven by past experience actual real experience of the concerned company, in that case is there any reason to be more conservative because the idea is to not and as I see it is not to be more conservative or more aggressive it will be more realistic and so in that sense I am just thinking you mentioned a while back that your conservative in terms of your provisioning on the stage III so I am just trying to understand that from that point of view?

- Sudipto Sil:** Actually if you look at it historically the loss rate has been around 7 basis points in about 29, 30 years of operation the loss rates has been in the range of around 7% obviously historical loss rate need not necessarily always play out in the future and that is the reason why an extra buffer or an extra provisioning has been maintained in order to ensure that the conservatism is not dispensed with.
- Dhawal Mehta:** Because if you just go by past anecdotal like you mentioned 7 basis points then obviously the need for provisioning should come down significantly even from the level that you currently maintained is that fair?
- Sudipto Sil:** Yes, I think that is the reason why I mentioned that there has been some conservatism, which has been build in there and you can actually probably now visualize that in the earlier NPA recognition on provisioning formula it was much, much, much to conservative.
- Dhawal Mehta:** Thanks Sudipto. That is it.
- Moderator:** Thank you. We take the next question from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.
- Sunil Tirumalai:** Thank you very much. Couple of questions anything that helped the opex to fall just wanted to understand what are the sustainable number there?
- Vinay Shah:** The opex actually there are two parts of it, one is the salary and benefits and the other is the establishment expense. Now in the establishment expense typically we used to classify the commission paid to agents for acquiring the business. Now that has to be apportioned. That cannot be shown as a charge of item in the year of incurring the cost. So there will be a little bit of I would say aberration if you compare it with the numbers that were earlier being shown, because now that item, which is one of the largest items that has to be apportioned. So that is one of the reasons probably you are seeing a steep fall, but going forward that is going to be the accounting practice.
- Sunil Tirumalai:** Yes, so my question was more from on slide #14, I am guessing both the previous year and current year numbers are on the same accounting there also we have seen a decline?
- Vinay Shah:** Yes that is because probably in the current quarter the component of commission would have been much larger than the component of commission in Q1 of last year. So as a result of it both have been removed from the basis that is one thing. Second thing in the salary and benefit part of it there was a one half item which was charged in Q1 of last year which was an one installment of an arrear wage payment, which has obviously not been there in this year.
- Sunil Tirumalai:** Can you quantify that please?
- Vinay Shah:** Around 7 Crores or so.

- Sunil Tirumalai:** Secondly just wanted to understand how are you thinking about growth rates long-term we actually have not just company smaller than you but even the company which is larger than you the market leader also in individual loans delivering 18%, 20% kind of growth rates is that something that you are kind of planning to do or what it is that in your aspiration or are you comfortable with sub 10% kind of growth in home loans just wanted to get your color on that?
- Vinay Shah:** Sunil as I said internally we are targeting growth rates in excess of 17%, 18% so that we land up somewhere near 15% or so in the coming quarters and that should start happening starting Q2.
- Sunil Tirumalai:** Final question is any change in your funding strategy, funding mix given the new interest rate regime that will be helpful? Thank you.
- Vinay Shah:** Yes actually in the funding strategy we have been doing slightly more levels of commercial paper within our ALM framework to ensure that we get the best of the funding cost. We have also very recently kind of put a lot of focus in raising the retail deposits so we have revamped the entire scheme with slightly more attractive rates and probably we will be a little bit more aggressive in raising deposits going forward. We are also actively exploring external commercial borrowings and we have already been discussing with several banks for ECBs that has also been happening parallelly.
- Sunil Tirumalai:** Got it. Thank you and all the best.
- Moderator:** Thank you. We take the next question from the line of Bunty Chawla from B&K Securities. Please go ahead.
- Bunty Chawla:** Thank you Sir. Thank you for giving this opportunity. Just need the data points; can you share the incremental yield and incremental cost for the cost of funds?
- Sudipto Sil:** See incremental cost of fund for the quarter it is around 7.89% and incremental yield is slightly more than 10%.
- Bunty Chawla:** So what will be the yields incremental yields if we compare with the Q-on-Q basis you said it has increased and this quarter it was around 1.9%?
- Sudipto Sil:** That is you are talking on the back book spread know back book spread is 1.9%.
- Bunty Chawla:** So incremental spread should be.
- Sudipto Sil:** Incremental spread should be as I told you 7.89% was the incremental cost of fund and the annualized yield should be in the range of around 10.19% or thereabouts.
- Bunty Chawla:** 10.2% roughly I can say.

- Sudipto Sil:** Yes.
- Bunty Chawla:** Thank you very much.
- Moderator:** Thank you. We take the next question from the line of Adarsh P from Nomura. Please go ahead.
- Adarsh P:** Sir question again on cost of funds you did mention 7.9% incremental cost of funds that includes a lot of CP that is not like a sustainable funding strategy so where is your current cost of funds on the full book and if you have a judicious mix of loans, bonds and some CP what would be your incremental cost today?
- Sudipto Sil:** See actually I would not say that the level of CP is very high because as of the quarter end the CP is only constituted about 6.7% or 7% of the total liabilities so I would not say that it is very high. It is higher than what we use to have maybe a couple of years back but it is still much, much less than as comparable to peers in the industry so it is well below 10% in terms of the total exposure to CPs as we had on June 30, so that is number one. Number two is that yes there has been an increase in cost but when you actually look at the cost, you will also have to see the fact that there are liabilities on the book which are also maturing say for example in this current year about 20000 Crores will be maturing which were pegged at around 8.5% so if I replace the same amount at present it looks like slightly lower than that, there will be some marginal benefit that we will get on the overall cost of liabilities and the cost of liabilities also will be looked into and at the same time the as that of the asset reprising. So there has been an increase in the system cost of funds in the interest rate scenario and we had passed on the interest rate hikes also on the asset side and commensurate, the effort is to always ensure that the margins and the spreads are protected, which we have been able to display in the first quarter.
- Adarsh P:** Broadly the way to look at this is whatever reprising you are having on liabilities you will be able to reprise it broadly as of today at the same rate and then you are looking at assets where you would have like a 30, 35 basis point advantage so will that be a full spread benefit or how should one look at it over the next two to three quarters.
- Sudipto Sil:** See I think a majority of it will flow through, a majority of it will flow through to the bottomline because as we just mentioned, the cost of funds we have been able to hold at the same level as that of March considering the fact that there have been two rate hikes and there has been at least a significant increase in the system cost of funds on the incremental side, that has happened because of kind of changing the incremental liability structure to some extent and majority because a large portion of our liability is about fixed cost, which locks in the cost at that particular level so there are no further increases so the benefit flows from the asset side directly to the bottomline.
- Adarsh P:** And second question again coming back to asset quality we have discussed there is seasonality in individual loans but there has been some increase so which segments have you seen the increase, geography, individual book, LRD, LAP because you kind of give the NP on individual but that

includes home loans, core home loans, and it includes LPA, LRD so if you can just break that up how many accounts because the point is in the last seven eight quarters we have seen about a 10% increase in our noncore book mix and I just want to make sure that we are not looking at an ever increasing trend because that is we still at in a few HFCs?

**Sudipto Sil:** I think if you look at the overall category wise between the LAP, the LRD and the normal core home loans of course builder loans you are already having the figure so we are not discussing that separately, obviously the LRD delinquency rates are the lowest, but between the LAP and the home loans I would say it is more or less at par. Probably the LAP is slightly high but it is not drastically higher as compared to the home loans.

**Adarsh P:** Any specific reason or geography you can think why I know it is 20, 30 basis points but I think for a company where your credit cost annually has been 7, 8 basis points 20 seems a lot so if you can just, any reason like I am sure you would have got into which accounts, which geographies or which income segment of guys have kind of led to this higher default rate so if you can just qualitatively talk about that?

**Vinay Shah:** The geography wise if you see north continues to have high NPAs and south also continues to have high NPAs. East has contributed a lot last year but that is on a recovery trail. Their recoveries are better they have been reducing their NPAs. As far as accounts are seen it is the sub 15-lakh ticket size where it is more. In LAP of course whatever we have seen is there also some higher cases are there but LAP also our average ticket size is not very high, but as compared to these ticket size of 15 and less LAP is slightly more.

**Adarsh P:** Sir last question can you just I kind of joined a little late. I do not know if you discuss this can you walk us through your network reconciliation under Ind-AS?

**Sudipto Sil:** Yes that is one thing that the network increase will be almost to the tune of slightly more than 1000 Crores so it is almost a 10% increase in the network that would have happened.

**Adarsh P:** Can you give components with of this like I am sure deferred tax is one but apart from that?

**Sudipto Sil:** Yes it is majority of it is DTL only.

**Adarsh P:** Did ECL lead to a reduction or an improvement? It should have led to a reduction right what is the quantum?

**Sudipto Sil:** It has led to a reduction.

**Adarsh P:** How large was that.

- Sudipto Sil:** See the ECL reduction is actually not fully factored into the balance sheet that is something that we will probably in the next quarter we will be able to share more light on it, but the difference could be as high as 200 to 250 Crores.
- Adarsh P:** So you are saying that as of today you have not factored ECL and it is a 1000 Crores improvement but you could have an ECL hit of 200, 250 Crores is that the way to look at it?
- Sudipto Sil:** It will be a positive impact.
- Adarsh P:** Thanks a lot.
- Moderator:** Thank you. We take the next question from the line of Umang Shah from HSBC Mutual Fund. Please go ahead.
- Umang Shah:** Thanks for the opportunity. All my questions have been answered. Just a clarification of on Adarsh's question. See you meant that 1000 Crores accretion is largely because of DTL and assuming next quarter when the ECL adjustment happens there could be a positive impact of 200 to 250 Crores?
- Sudipto Sil:** Likely yes.
- Umang Shah:** And that is over and above this 1000 Crores.
- Sudipto Sil:** Yes.
- Umang Shah:** Thanks and all the best.
- Moderator:** Thank you. We take the next question from the line of Harsh Desai from Vallum Capital. Please go ahead.
- Harsh Desai:** Sir my question was with regards to the 50 basis points hike in the PLR. Do not you believe that that this 50 basis points hike in PLR you would start losing some of your books to balanced transfers to some of these banks who have been able to maintain their housing finance yield at a much lower level?
- Vinay Shah:** No. I will say two things to that one is we have done it after seeing the competition so it is not that that our rates are very high and theirs are very low there may be as I mentioned earlier also it is a 5 basis points difference with one of the banks that is all and number two as you will see it on the Q1 numbers and we are working on it to our exits have gone down actually. We have seen a marginal reduction in that.
- Harsh Desai:** No my point of view was more like as you said yes across the board competition has increased their marginal lending rates but as a matter of fact a lot of housing book would start moving from

housing finance companies to banks as we were told by a couple of other housing finance companies do you can see a scenario like that happening?

**Vinay Shah:** I do not think that can be given that housing finance companies will lose portfolio to banks I think that cannot be taken as a given it probably depends on many factors including the servicing, the rate of interest being offered by the HFC and the bank so I do not think that can be a straight cut formula that HFCs are going to lose market share to banks actually in the last couple of years the contrary has been the case.

**Harsh Desai:** Yes it has been falling with our straight scenario but I thought otherwise...

**Vinay Shah:** No it does not actually if you look at it, it is not that way because I think at least for the top few HFCs they are as competitive as the top few banks in terms of the ability to retain customers, acquire customers as well as also to borrow funds at the lowest possible rates.

**Harsh Desai:** Thanks a lot.

**Moderator:** Thank you. We take the next question from the line of Manish Agarwalla from Phillip Capital. Please go ahead.

**Manish Agarwalla:** Thanks for the opportunity. Just one data keeping question what would be our weighted average yield on individual loan as well as the incremental yield on the individual loan excluding your LAP and builder portfolio?

**Sudipto Sil:** The individual incremental individual lending will be in the home loan side will be around 9.2% this is the annualized whereas in the LAP it will be around 10.5%.

**Manish Agarwalla:** And on the weighted average basis what would be individual yield?

**Vinay Shah:** Individual on the weighted average basis will be around – you are talking of the HLAP or with LAP.

**Manish Agarwalla:** No without LAP?

**Vinay Shah:** Without LAP it will be around 9.4 or thereabouts.

**Manish Agarwalla:** So basically your back book and the incremental is more or less same now correct?

**Vinay Shah:** Yes now it has been more or less same because of the reprising, which have happened on both the sides.

**Manish Agarwalla:** Thanks. That is all from my side. Thank you.



- Moderator:** Thank you. We take the next question from the line of Prashant Kutty from Emkay Global. Please go ahead.
- Jignesh:** This is Jignesh here. All of my questions have been answered. I just had one this your June 2018 stage III NPA which is 1.21% is all your 90 days recognition NPA right there is the definition of NPA remains the same what it had been in the previous term I mean as per the RBI right?
- Vinay Shah:** Yes stage III is more than 90 days.
- Sudipto Sil:** By and large the same.
- Jignesh:** All are 90 days plus and there is no deficit or something like different all are 90 days plus DPD only?
- Vinay Shah:** Yes.
- Jignesh:** Perfect. That is it. Thanks a lot Sir.
- Moderator:** Thank you. We take the next question from the line of Kamal Verma from CLSA. Please go ahead.
- Kamal Verma:** I just wanted to ask regarding your provision levels under Ind-AS so for most of the housing finance companies provisions have declined for you it has increased from like 1000 Crores, 100 Crores in 1Q FY2018 to 200 Crores now, so this maybe due to seasonality because you have higher NPAs in first quarter.
- Sudipto Sil:** No actually it is the other way around last year it was 204 Crores this year it is 160 Crores.
- Kamal Verma:** No that is under Ind-AS I am comparing between I-GAAP and Ind-AS so under I-GAAP you provisioned last year were over 104 Crores under Ind-AS it is 204 Crores it has doubled. So what can be the realistic number for the full year?
- Sudipto Sil:** The full year numbers will be more or less in line with the trend for the current Q1.
- Kamal Verma:** So like 160 Crores.
- Sudipto Sil:** Yes and progressively if you look at it generally the first quarter the provisions are the highest because the NPAs are also the highest in the Q1 progressively Q3 and Q4 the NPA levels keep on coming down so progressively the incremental provision for each of these three quarters will be lower than what we have seen in Q1.
- Kamal Verma:** But it will be here than what it would have been under I-GAAP?

- Sudipto Sil:** Unlikely because if you look at the entire ECL model the overall provisioning itself has come down significantly, if you compare the on book provision as of March 31, and if you compare the ECL provisioning as of now that is what we were discussing in a couple of questions earlier the gap is almost 300 Crores positive.
- Kamal Verma:** Yes but still the provision costs are higher?
- Sudipto Sil:** No actually it has come down that is precisely what I am telling is the overall provisioning has come.
- Kamal Verma:** But I am comparing between I-GAAP and Ind-AS?
- Sudipto Sil:** Between I-GAAP and Ind-AS the provisioning has actually come down.
- Kamal Verma:** And regarding like how much portion of your borrowings are fixed rate?
- Sudipto Sil:** Fixed rate borrowing will be around 75%, 77%.
- Kamal Verma:** And these are at 8.5% as you mentioned I think?
- Sudipto Sil:** No I did not mention at 8.5%. It is less than 8.5%, 8.5% is that portion of the borrowing, which is going through the Ind-AS during this current financial year.
- Kamal Verma:** And the total stock of borrowings would be at these fixed rate ones?
- Sudipto Sil:** Yes it will be less than 8% around slightly more than 8%.
- Kamal Verma:** Thanks.
- Moderator:** Thank you. We will take the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.
- Nishchint Chawathe:** Just one thing how much recovery did you make from the developer loan this quarter?
- Sudipto Sil:** The developer that account was total around 70 Crores which we have recovered out of which about the 40 Crores was the principal quantum.
- Nishchint Chawathe:** In terms of accounting the balance 30 Crores will be reflected in the interest income?
- Sudipto Sil:** No it will actually not be in the interest income for the current financial year on the current financial quarter because under Ind-AS it will not be in the one quarter.
- Nishchint Chawathe:** Then how does it get accounted for?

- Sudipto Sil:** See under Ind-AS even for a loan which is under EAD you can still accrue interest on EAD stage I, II as well as stage III, so when you are actually accruing the interest on any of the stage I, II and III even if there is a further recovery after sometime the full lump sum comes back after sometime. You cannot count it back again. What you are referring to under Indian GAAP is correct.
- Nishchint Chawathe:** So will it mean that the provision for the quarter was less or it just leads into lower how does it really get accounted for?
- Sudipto Sil:** The provision release will be there to the extent it was already been carrying on the books as per the earlier accounting standards.
- Nishchint Chawathe:** So I believe this was 100% provided so to that extent you almost got a 30 Crores saying this quarter?
- Sudipto Sil:** Yes.
- Nishchint Chawathe:** The other point that you mentioned was that other expenses I think there was some adjustment with respect to origination expenses is that right?
- Sudipto Sil:** That is right, yes.
- Nishchint Chawathe:** So the origination expenses now on will be deferred.
- Sudipto Sil:** It will be apportioned.
- Nishchint Chawathe:** It will be apportioned and this apportionment happens at the expense levels not at the income level?
- Sudipto Sil:** It happens on the income level also for the component of processing fees, which is collected at the time of originating the loan.
- Nishchint Chawathe:** And what getting apportioned at the expense level?
- Sudipto Sil:** It is the commission expenses.
- Nishchint Chawathe:** Okay commission expenses as in the DSA commissions you mean?
- Sudipto Sil:** Yes agent's commission.
- Nishchint Chawathe:** Agent commission that is right. Just one small data reconciliation your noncore book was 27000 Crores right at the end of the quarter?
- Sudipto Sil:** Yes.

- Nishchint Chawathe:** And the fourth quarter was 23800 Crores?
- Sudipto Sil:** Yes.
- Nishchint Chawathe:** And the disbursement for the quarter was around 1400 Crores? What was the disbursement in this segment?
- Sudipto Sil:** Yes, 1400 Crores.
- Nishchint Chawathe:** So if I do 23800 plus 1400 I get around 25200 so how was the closing book 27000?
- Sudipto Sil:** See there is actually some LRDs, which were not classified earlier, is now being categorized under this segment.
- Nishchint Chawathe:** Just for the record sake what could be the loan like on a like-to-like basis 23800 could have gone like where?
- Sudipto Sil:** Sorry.
- Nishchint Chawathe:** This 23800 this quarter should have been like what number I believe 27000 has some regrouping so?
- Sudipto Sil:** Yes it could have been around 20000 Crores lesser.
- Nishchint Chawathe:** Thank you very much and all the best.
- Moderator:** Thank you. We take the next question from the line of Amit Goenka from Rare Enterprise. Please go ahead.
- Amit Goenka:** My question has been answered. Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.
- Subramanian Iyer:** Sir a question on your margins as I understand under Ind-AS the seasonality in your margins should be lower because you would be accruing interest income on your NPLs as well so does this mean that this quarter seasonally should not have seen the kind of decline in margins that you see typically and even the fourth quarter to that extent you want to see the same amount of benefit in margins even if you were to have interest income recovery, even if you were to have NPL recovery?
- Sudipto Sil:** See actually now the margin recovery will be driven obviously whenever there is a significant upgrade in asset quality it will have an impact in the provisioning and also in the classification of

assets in the EAD I, II, III category but mostly the margin recovery will be driven by improvement in the lending rates.

**Subramanian Iyer:** A question on the deferred tax liability reversal so how has the accounting been done from a Tier I perspective in the sense that where you knocking off? Did your Tier I suffer as a result of this deferred tax liability creation in the past or so essentially would you see a benefit to the Tier I as well?

**Vinay Shah:** No it was neutral to that so it will not have a write-back impact.

**Subramanian Iyer:** Can you explain how it was neutral actually?

**Vinay Shah:** It was neutral because it was not taken out of the Tier I.

**Subramanian Iyer:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Manish Shukla from Citigroup. Please go ahead.

**Manish Shukla:** Of the 20000 Crores of borrowing during quarter how much would have been CPs of the incremental borrowing.

**Sudipto Sil:** See about Rs.7000 would be on the CPs.

**Manish Shukla:** And that you are saying is more or less quarter specific it may not be same proportion through this?

**Sudipto Sil:** Generally it is 90 days, 60 days between that so sometimes what happens is the cumulative number might be 9000 but actually it might be two CPs taken within the same quarter.

**Manish Shukla:** Sir I am saying as a proportion of CP so 7000 on 20000 Crores do you see the proportion of CPs remaining same and are on incremental basis?

**Sudipto Sil:** It will come down. It cannot exceed the rating which itself is quite low number one, number two is that at the end of the quarter also if you see the total amount of CPs that we were already having as on of March 31, plus the CPs that we have done incrementally during the quarter the total itself is the June end number itself is much lower than the addition of these two.

**Manish Shukla:** That is fair point that is the reason I asked on an incremental basis sure. The second question is what is the total noncore disbursements for the quarter as a non-mortgage disbursement?

**Vinay Shah:** Project included you are asking?

- Manish Shukla:** No, project separate on the individual side?
- Vinay Shah:** 1400 Crores.
- Manish Shukla:** 1400 Crores is all noncore, so the LRD roughly 2000 Crores adjustment that you are saying was earlier classified in the project or individual?
- Sudipto Sil:** See part of it was on the project.
- Manish Shukla:** Those were my questions. Thank you.
- Moderator:** Thank you. We take the next question from the line of Nikhil Walecha from JM Financial. Please go ahead.
- Nikhil Walecha:** Could you please tell me the exact number for networth as of June 2018, is it 13700 Crores?
- Sudipto Sil:** To be very honest the balance sheet figures are to be disclosed only as of September that is the publication of balance sheet has to happen in September but the increase in the networth, which has happened on the opening balance sheet of 01.04.2017 as per the Ind-AS the increase in the networth is to the tune of around roughly between 1100 Crores and 1200 Crores.
- Nikhil Walecha:** So this would be around 12500 Crores to 13000 Crores?
- Sudipto Sil:** 12500 Crores was the closing networth as on March 31, 2018.
- Nikhil Walecha:** The 1000 Crores number that you are saying that would be added on March 2018 or Q1 2018 number?
- Sudipto Sil:** No it will be added as on opening balance sheet, always.
- Nikhil Walecha:** So this would be around 13500?
- Sudipto Sil:** Yes.
- Nikhil Walecha:** Sir what is the exact amount for this DTL?
- Sudipto Sil:** DTL would be around say roughly around 1100 to 1200 Crores.
- Nikhil Walecha:** So this increase in networth is primarily on account of DTL right 1100, 1200 Crores?
- Sudipto Sil:** Yes.
- Nikhil Walecha:** Thanks.

- Moderator:** Thank you. We would take the last question from the line of Keyur Ashar from Reliance Nippon Life Insurance. Please go ahead.
- Keyur Ashar:** Thank you for the opportunity. I just had a data point question Sir I just want to understand what is our split between the individual loans and the remaining part of our total AUM?
- Vinay Shah:** On the total AUM the individual plus LAP put together will be around 95%, 5% will be the builder works.
- Keyur Ashar:** On the individual loans you are saying that we have a gross NPA of 0.81% and overall we have about 1.2% is that right?
- Vinay Shah:** That is right.
- Keyur Ashar:** That was my question. Thank you.
- Moderator:** Thank you. Well that seemed to be the last question for today I would now like to hand the conference over to the management for their closing comments.
- Vinay Shah:** Thank you for the queries. The company again as we said is again going ahead and seeing to it that we get back to more than 15% growth in disbursement. We arrest the NPAs and bring them substantially down by Q2, improve upon the spreads and see how best we can borrow funds at the least rates available in the market. Thank you very much.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Axis Capital Limited we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.