

Transcript

Conference Call of LIC Housing Finance Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Bharathi, moderator for the conference call. Welcome to LIC Housing Finance Limited Q1FY22 earnings conference call. As a reminder, all participants 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 * and then 0 on your touchstone telephones. Please note that this conference is recorded. I would now like to handover the floor to Mr. Praveen Agarwal of Axis Capital Limited. Thank you and over to you sir.

Praveen Agarwal: Thank you Bharathi. Good morning everyone and welcome to this call. We have with us on the call Mr. Y. Viswanath Gowd, MD and CEO and Mr. Sudipto Sil, CFO of LIC Housing Finance. I would request the management to share their initial remarks post which we will open the floor for Q&A. Over to you Mr. Gowd.

Y. Viswanath Gowd: Okay, a very good morning to all of you and thank you Praveen. On the outset I extend a hearty welcome to all of you and invite for this post earnings investor call of LIC Housing Finance Ltd. As you are aware, LICHL declared Q1 FY22 results yesterday. Before beginning I wish you and your near and dear ones very good health and safety. Though the previous financial year closed on a note of improved economic activity, since April however the situation changed rapidly with the emergence of the second wave of the pandemic with lockdown and restrictions being imposed across various parts of the country, plunging the economic recovery again into uncertainty and also upsetting our own operations. Since June there has been improvement in economic activities. However, the graph of recovery will continue to hinge on the pace of vaccination and containment of / or prevention of the future resurgence of the pandemic.

The key highlights of the results for the quarter are as follows: Total revenue from operations 4857 crores as against 5400 crores for the corresponding quarter of the previous year, showing a decline of 3%. Outstanding loan portfolio stood at 2,32,548 crores as against 2,09,817 crores as on 30th June 2020 reflecting a growth of 11%. Out of which individual housing loan portfolio stood at 2,16,947 crores as against 1,95,176 crores. It is up by 11%. Individual home loan reported a growth of 13% and now it comprises a little more than 78% of the product portfolio; up from 76.6% a year ago. Total disbursement for the quarter was 8652 crores out of that disbursement in the individual home loan was 7650 crores as against 3560 crores in the last quarter, a growth of 152%. Disbursement in project loans: That is the developer loans, were 237 crores. Net interest income for the quarter was 1225 crores as against 1220 crores recording a growth of 4.5%. Net interest margin for the quarter stood at 2.2% as against

2.32% for Q1FY21. Profit before tax for the quarter stood at 192.93 crores as against 1017.67 crores. Profit after tax for the quarter stood at 153.44 crores as against 817.48 crores for the same period in the previous year. Loan disbursements during the quarter remained positive though they were impacted during April, May due to the resurgence of the second wave of COVID. Geographically the growth remained evenly distributed across the various regions with south, eastern, western, and the south leading. Our mobile platform HOMI app recorded a very good pick up accounting for more than 3400 crores sanctioned during the quarter.

On the portfolio front, the growth, the total portfolio recorded a growth of 11% amounting to 2,32,548 crores with increased focus on the home loan segment, the growth recorded in the home loan portfolio was 13%. In terms of asset quality: Stage three exposure at default as on 30th June 2021 stood at 5.93 as against 4.12 as on 31st of March 2021. Total provisions as on 30th June 2021 stood at 4727.02 crores, reflecting a provisioning cover of 34%. ECL provisions to the tune of 830 crores were done during the quarter towards increase in the NPAs.

Asset quality continues to be an area of high priority for us. There has been a sharp increase in the delinquencies mostly due to the economic activities being impacted in Q1 with lockdown and restrictions in many states because of the second wave of COVID-19. However, with improvement in economic activities and our increased efforts and recovery we are confident of controlling the same and believe that this should mark the peak. During the quarter under review we have witnessed collection from accounts which were classified as NPA as on 31st March 2021. Though the amount may not be significant, it reflects some improvement in sentiments. Last week a resolution has happened in an account that was in NCLT which resulted in recovery of more than 100 crores.

OTR during the quarter stood at 2350 crores. We have been very closely focusing on the collection efficiency and it continues to be around 98% for the regular accounts during the three months of the quarter. On the funding side, we have witnessed an overall cost of points by 5 basis points during Q1FY22 and year-on-year by 99 basis points. Incremental cost of funds has come down significantly and stood at 5.03% for the Q1FY22. Net interest margins for the quarter stood at 2.2 as against 2.32% over the same period previous year. Incremental spreads clocked one of its highest levels and stood at 250 basis points during Q1FY21. The funding environment and liquidity conditions remain quite favorable for the company. The company is offering home loans now at 6.66% interest rate for a specific limited period. It is the lowest rate ever interest rate in our company.

Project RED: That is re-emergence excellence to digital transformation in association with the BCG group has also been progressing quite rapidly and some projects especially (voice garbled), video KYC, video PD have already been rolled out and others are in the pipeline which will take shape probably in this quarter and the next quarter to come. With this brief introduction, I would like to invite you for your queries. Thank you very much.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your

telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

The first question comes from Marukh Adjanina from Elara Capital. Please go ahead.

Marukh Adjanina: Hi sir. Can you give the breakdown of __8:42__HCL into core retail, LAP and developer? If you can even breakdown developer into NRD and others?

Y. Viswanath Gowd: Yeah, I will tell you. This IHL loans-individual housing loans at the stage three, (now actually only stage three is required for you no?) comes to around 2.6%...

Marukh Adjanina: Which was 1.9% in the fourth quarter?

Y. Viswanath Gowd: Yes you are correct.

Marukh Adjanina: Then sir...?

Y. Viswanath Gowd: Non-Housing Commercial if you see, that is holding around 18.91%. The other thing is non-housing individual that is 10.99%. All these are in the retail segment...total retail segment, overall comes to 4.57%.

Marukh Adjanina: Right sir. This non-individual of 10.99, that is LAP is it?

Y. Viswanath Gowd: Yes.

Marukh Adjanina: Got it sir. Could you explain the rise in employee expenses?

Y. Viswanath Gowd: Rise in employee expenses, everything is normal only because once in four years there will be wage revision; so with retrospective of 2017 it is given. So now we have paid arrears to the tune of nearly 130 crores. So the arrears amounts are paid and that is why it has been booked in this quarter.

Sudipto Sil: Marukh to that extent 124 to 130 crores is a one off which has appeared only in Q1 of this year; which is towards the arrears payment of last four years almost from August 2017.

Marukh Adjanina: Got it. But sir, going ahead, could we continue to expect run rate in employee expenses of say 600 crore odd or...?

Sudipto Sil: No, no. Actually you have to look at it from the point of view that after you remove that 125 odd crores, the number comes to about 90, 92 crores, that generally will be the run rate. So year on year increase you can take around 15%.

Marukh Adjanina: Got it.

Y. Viswanath Gowd: Now the quarterly amount is around 80 crores only. It will go up by another 15% that is the average we have given. Forward looking this much only, 80 plus another 15%...that's all within 100 crores. What happened, this one off amount is only the arrears which was paid for the past dues that's it. It is the practice normally to give the wage revision once in four years retrospective effect.

Marukh Adjanja: Got it sir. Sir the term of capital would be or any alternate plan of raising in case this does not go through?

Sudipto Sil: Actually on this matter we would not like to make any comment because as you know that we are working on whatever instruction the stock exchanges have given and we would not like to comment on this matter.

Marukh Adjanja: Got it fair enough.

Y. Viswanath Gowd: We have compared everything in full and we are in touch with the stock exchange and waiting for their further instructions.

Marukh Adjanja: Fair enough. Just one last question. The COVID provision of the total provision that you made in the quarter which is 830 crores, of that how much has gone to restructuring, how much has gone towards COVID provision....that is all in the ECL?

Sudipto Sil: Everything is in the ECL. For restructuring under the OTR you have to create a reserve and not a provision.

Y. Viswanath Gowd: It can't be used for any other purpose.

Sudipto Sil: That reserve is basically an appropriation, that is not a provision.

Marukh Adjanja: Right but all part of ECL?

Sudipto Sil: Everything is there. Whatever provisioning has happened in the quarter has been reflected in the ECL provisioning in the P&L.

Marukh Adjanja: Okay thanks a lot.

Moderator: Thank you ma'am. Next question comes from Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Thanks for taking my question. Sir, first thing, at least the restructure pool that we have reported of about 53.5 million during the quarter I think is higher than what we had guided for during the last earnings call. The other thing is if you could just comment on what has happened that lead to the sharp asset quality deterioration during the quarter?

Sudipto Sil: Abhijit, first of all let me tell you the number that you are talking about is not only for the quarter. It is very clearly mentioned in the disclosure that it is cumulative and not during the quarter.

Abhijit Tibrewal: Okay. Out of this 47 million is your builder loans?

Y. Viswanath Gowd: Yeah correct.

Abhijit Tibrewal: So sir if I look at our GNPA mix which I think you suggested is at 18% to 9% sometime back and if we overlay this 4700 crores of restructuring in the builder loans, I think compared to an overall this side was about 11000, 12000 crores. I think doesn't that seem a little too high? In other words I would say that a good 45%, 50% of the book is under stress now.

Y. Viswanath Gowd: No here one thing I would like to tell you. People have taken I agree this OTR and all but some of the clients with whom we are in touch even they may preempt the option also even if they avail now, once the situation improves, certainly they will be once again they can further restructure it no? So they are all looking into it. Even the developer loan, the book size is small for us and wherever OTR is taken they are in a capable position not that they are totally slipping into NPA. I think forward looking, we are very sure that further downside in this thing is almost ruled out.

Abhijit Tibrewal: Okay. On the developer book if you could read what was your stage two number, let's say in absolute terms?

Y. Viswanath Gowd: Developer book if you see, stage two as far as the project is concerned is 2490. This is your stage two in the developer book.

Abhijit Tibrewal: Right sir. One last question that I had, You have had under the 5% Q3 increase in your interest expenses while our incremental cost of borrowings had actually come down, so what has lead to this increase? Can that be explained by CPs coming off on your book and being replaced by some of the (not clear)?

Sudipto Sil: No, Abhijit actually the cost of fund year-on-year also has come down. Sequentially also it has come down both on the incremental as well as the cumulative. If you see there has been reduction in the interest expense year-on-year also by almost 5.7%. Interest expense in the June quarter of the previous year was 3764 as against that it is 3549. This is there in the published numbers.

Abhijit Tibrewal: Okay alright. I am talking about the Q3 increase, that number was....

Sudipto Sil: Q1, Q2 sometimes are not comparable because yearend sometimes there could be a drop because of some change in the liabilities. But year-on-year there has been a reduction. ON a full year basis also there will be a reduction.

Abhijit Tibrewal: Great So what you are trying to suggest is that there is no point at a Q4 number. Okay alright thanks that's all from my side.

Moderator: Thank you sir. Next question comes from Aditya Jain from Citi Group. Please go ahead.

Aditya Jain: Thank you. Could you suggest the amount of ECLGS disbursement which has happened?

Y. Viswanath Gowd: Which one?

Aditya Jain: ECLGS disbursement....debt outstanding...?

Y. Viswanath Gowd: ECLGS portfolio actually is now under 1 and 2. ECLGS total retail disbursement...actually sanction amount is 65 crores in this quarter, Q1 and then disbursement took place around 8 crores.

Sudipto Sil: You want exactly the total figure of ECLGS disbursement during the quarter?

Aditya Jain: Outstanding ECLGS all disbursement which are to date.

Y. Viswanath Gowd: Sanctioned is 65, disbursement is 140 crores total, retail, project put together. 140 crores under ECLGS in the quarter one 2022, total amount has come to 140 crores.

Aditya Jain: Okay and in the interim reserve which is created for restructuring, you extended process to the P&L, the amount of the reserve at the end of the last quarter, I think you had round about 285 crores or so (not clear) where is it now?

Sudipto Sil: This time, the impairment reserve is not a provision but an appropriation. So please do not mix it up with provision. It is a different thing altogether. It is an appropriation out of the P&L. That is the amount of reserve on which you cannot service dividends. That impairment appropriation will be done in the second quarter, that is in the September quarter where balance sheets were actually required to be published. It does not have an impact on the P&L. It is an appropriation; once again I am clarifying it is an appropriation, it is not a provision.

Aditya Jain: Understood. As of now the way I should look at it is 285 crores is the amount outstanding in the impairment reserve that will be changed in the September quarter when the balance sheet is published?

Sudipto Sil: Yes.

Aditya Jain: Got it. Lastly, individual home loan, the increase in NPA, if you could qualitatively tell us which sort of customers, either geography whichever way you can dissect that...which way has the increase in NPA come from?

Y. Viswanath Gowd: No, normally....in this quarter what happened is, April and May there was not much of movement outside as you know. So geographically if you are speaking, specially in the tier II, tier III cities and all what happened is, our footprint is very high. Last year also we got more than 50% of the business from there. There what happened is some delinquencies were there, may not be the high ticket size; in the individual housing loan even the small ticket size here and there, there was some slip. But mostly they are in the default also now. So what happened now, in the month of June, there is a good recovery. So we are very confident going forward I think in individual housing loan segment, there will be sustainable and very durable recovery henceforth.

Aditya Jain: Thank you.

Moderator: Thank you sir. Next question comes from Miti Gupta from India Infoline. Please go ahead.

Miti Gupta: Sir what will start the impairment for financial instruments to rise so much if we compare on quarter on quarter basis?

Y. Viswanath Gowd: Can you please repeat your question? You were not very clearly audible.

Miti Gupta: Sir, what has caused the impairment on financial instruments to rise from 56.45 in quarter one last year to 813.41 in this year?

Sudipto Sil: There is PCL provision you know. There has been an increase in the NPAs.

Miti Gupta: What has been the movement from stage two to stage three in this quarter?

Y. Viswanath Gowd: Stage three now currently we stand at 5.93 overall.

Miti Gupta: How much the fresh (not sure) moved from stage two to stage three?

Sudipto Sil: Stage two to stage three, if you now look at overall there has been an improvement of 1-1/2% to 2%.

Miti Gupta: Sorry sir how much?

Sudipto Sil: 1-1/2% to 2%. There has been a marginal improvement in stage one.

Miti Gupta: Okay thank you.

Moderator: Thank you ma'am. Next question comes from Srinivas Rao from HDFC Mutual Fund. Please go ahead.

Srinivas Rao: Hello? This is Amit Ganatra. I just had a couple of questions. One was for the last quarter the restructured book was 2970 crores and now it is 5353 crores. Is it correct?

Sudipto Sil: Total is 5350.

Srinivas Rao: Correct, so incrementally was 2350 crores.

Sudipto Sil: Yes.

Srinivas Rao: Now this 5350 crores if you were to see, in what stage is it categorized right now? Stage two or stage three?

Y. Viswanath Gowd: Stage two only know. They have to be eligible for restructuring, then only they can reach...

Sudipto Sil: Mostly stage one and stage two put together. It is not in stage three.

Srinivas Rao: Okay, but between stage one and stage two where could it be sitting majorly?

Y. Viswanath Gowd: Majority will be in stage one only. Last quarter also we had the same experience. OTR two has now started. Under OTR one, which ended by end of June, so both put together, both stage one and stage three came to 5350.

Srinivas Rao: Is there more restructuring expected because restructuring is still going on right?

Y. Viswanath Gowd: Yes it is going on. OTRs we do not know how many people will opt for that, but still it is open upto the end of September, it has been web enabled, depends on the people who opt for that.

Sudipto Sil: Right now OTR two optees are very little but generally it picks up towards the closing date.

Y. Viswanath Gowd: Then amount size also will be less than 50 crores.

Sudipto Sil: Right now OTR two is about 50 crores only not above 50.

Srinivas Rao: Okay and is there any interest reversals that you had to take during the quarter because your interest income **Sudipto Sil:** is also down 1% QOQ? So is this the normal re-pricing of the book or this has an impact of higher NPAs also?

Sudipto Sil: It will obviously interest income, to some extent also will be impacted by the NPA increase but it is also due to the fact of reduction on the yields in the portfolio.

Srinivas Rao: But is the interest reversal a very large number or something like that something that you can relate?

Sudipto Sil: No, it is not. Actually under IND AS if you are allowed to...

Srinivas Rao: Under IND AS reversals are not there generally allowed right?

Sudipto Sil: Yes it is not allowed.

Srinivas Rao: Okay, understood thanks.

Moderator: Thank you sir. Next question comes from Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Thank you sir for the opportunity. I had a question. This 5000 odd crore restructuring, how much has been the provision created on that?

Sudipto Sil: Sorry can you please repeat yourself?

Amit Premchandani: The OTR of 5000 odd crore restructured amount, what is the provision created on that?

Sudipto Sil: Under the OTR regime, as per the RBI circular, now what we have to provide is a blanket 10% only outstanding amount right?

Amit Premchandani: Yes.

Sudipto Sil: So that is something which is compliant. So what happens to the difference between the ECL provisioning and the provisioning under the IRAC norms. This is under the IRAC norms, under the RBI prescription so it is not under the ECL computation. The balance gets moved into an appropriation out of the P&L which is called the impairment reserve, the balance. But to answer your question, fully it has been provided as per the RBI norms that is 10%.

Amit Premchandani: So 5000 crores require 500 crores of provision, is it safe to assume you have stage one and two provisions and appropriated it for the restructured assets rather than creating a fresh 10% provision through the P&L above the lines.

Sudipto Sil: Actually what happens here, the people are different. So you have got the provisioning under the IND AS is the pool provision right? On the entire assets of whether it is stage one, stage two or stage three. Now under the RBI prescription you have to also create 10% provisioning on the amount of restructured assets so that 5350 crores will lead to a 500-crores of provisioning requirement under the RBI IRAC norms. That is a separate treatment, this is a separate treatment. Ultimately you have to report the numbers under ECL. This provisioning is also created and the balance is reflected as an appropriation of reserve. Now, if you look, as of March the reserve was around 280 or something. So that reflects a difference in the provisioning which is taken out of the reserve.

Amit Premchandani: So 280 crores have been taken out of the reserve for this....

Sudipto Sil: I wouldn't say it is taken out of the reserve, but it is an appropriation of the P&L.

Amit Premchandani: Yeah, but this reserve is below the line after the....

Sudipto Sil: Correct, this is a reserve not a provision.

Amit Premchandani: Okay that is not shown to the P&L because....

Sudipto Sil: Yeah only to the extent of the difference between the RBI prescribed norms and this. Otherwise 4700 crores is the provisioning which covers all the NPA's accounts including the ones which are under restructuring.

Amit Premchandani: Fine. Right sir and the difference is 280 crores that you mentioned?

Sudipto Sil: Yeah.

Amit Premchandani: Thank you sir. That's it from me.

Moderator: Thank you sir. Next question comes from Sashank Varma from Axis Mutual Fund. Please go ahead.

Sashank Varma: Thanks a lot for giving me an opportunity. Sir I just wanted to check on one prior question. The ECLGS as on date what is the outstanding number?

Sudipto Sil: 450 crores approximately.

Sashank Varma: Okay. One more thing. Top 10 developer's account will contribute how much for us as on date?

Sudipto Sil: Top 10....?

Sashank Varma: Top 10 developer's account would be how much on an absolute basis or as a percentage of our entire developer book today?

Sudipto Sil: You are talking about top 10 developer's accounts or top 10 NPA....developers in the NPA....?

Sashank Varma: No, no sir, I am talking about the standard accounts.

Sudipto Sil: Top 10 in the portfolio, let us look at it this way. Top 10 will be around 2000 crores.

Sashank Varma: Okay that's it, thank you.

Moderator: Thank you sir. Next question comes from Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Hi, I just have a couple of questions. Quickly in the individual segment in the second stage of restructuring we have done only 40 crores or so? Why did we let them slip into NPL and not restructure them?

Sudipto Sil: No, no it is not allowing them to slip. Time is still there. They have to be eligible. There are certain eligibility criteria.

Y. Viswanath Gowd: They have to satisfy that and all. They have to come under that, even the ratings also are required.

Sudipto Sil: Individual in retail rating is not required but there are certain eligibility criteria.

Piran Engineer: But those would just be ticket size based criteria right?

Sudipto Sil: They have to be a performing account no?

Piran Engineer: As of March, they would have been performing and they would have had the option to restructure but we didn't and then they have slipped in this quarter. They have slipped in the month of April before the (not clear).

Sudipto Sil: Exactly. That's what I am saying, the basic eligibility criteria of the account being standard should have to be achieved by the optees. That is number one. Number two is that not everyone is applying for OTR because many people are paying intermittently. It is not they are stuck in default, they are paying intermittently also.

Y. Viswanath Gowd: Retail segment around 1046 numbers are accounted for under OTR.

Piran Engineer: Okay. And sir if you can give us the broad picture, we have got almost 9000 crores of loans under NPL in the individual segment. Now, what percentage of the NPL would be customers who are paying but just that they are more than 90 days overdue? So they are paying but they are paying with a lag. So what percentage would be those who are not paying at all? If you can give some color on this that would be really helpful because our collection efficiency always looks strong, but quarter after quarter our NPLs are rising even in the retail segment and investors are just not able to understand how those two can co-exist. So if you can give a sense of what percentage of your NPL book is paying, that would give a lot of clarity to investors. Would you happen to have that number off hand?

Sudipto Sil: No, I will just share some exact numbers. The numbers the regular collection efficiency on a month on month basis that is on the regular accounts is more than 95% and that is around 98% and that is consistently been there. In terms of total number of customers who have actually made some payments...one second.

Piran Engineer: I meant how many NPL customers are making payment?

Y. Viswanath Gowd: What happens, tier II and tier III cities mostly by April and May movement was restricted but even over telephone and also follow up and all NPA customers have nearly 10% to 15% across the board have converted and regularized. So in the month of June especially in the second period of June really this has helped us a lot. So 15% who can take as it is a benchmark is happening now. Going forward, definitely more than 30%, 35% will come up now, that's what we are looking at.

Piran Engineer: No, sir you are not getting my question. These are accounts that are regularized which means they have been upgraded back to standard. I am asking there will be a lot of customers who are paying but they are still 90 days overdue and they will still remain as NPL and don't get regularized.

Sudipto Sil: I got your query. Out of the customers who are NPA as on 31st of March you want what has been the collections from those accounts right?

Piran Engineer: Yes, that will be very helpful.

Sudipto Sil: Approximately 30% of the customers have been making some kind of payment number wise. But obviously that is not adequate enough to pull them out of red.

Piran Engineer: This gives good clarity. Sir my next question is out of the restructured book in corporate which is 4500 odd crores, how much of that is LRD? Or is it all builder loan?

Sudipto Sil: Which one?

Piran Engineer: The restructured book in corporate, how much of that is restructured discounting because there also we have 3%, 4% NPL if I recall correct.

Sudipto Sil: There also....in the LRD also there is restructuring which is there.

Y. Viswanath Gowd: LRD maybe something around...

Sudipto Sil: LRD restructuring?

Piran Engineer: Yes,

Sudipto Sil: That is there. For example on the non-retail segment, non-retail total restructuring amount is...in Q4 it has been around 1700 odd crores and in Q1 around 2000 crores. Some 700, 800 crores restructuring requests have been received.

Piran Engineer: Over two quarters?

Sudipto Sil: Yeah.

Piran Engineer: Okay. Just at the risk of repetition sir if you could explain exactly now, last quarter our impairment reserve was almost 284 crores as of March 31st. This 284 crores had been passed through the P&L of FY21 and....

Sudipto Sil: Again I am telling you it is not a provision. It is an appropriation. It is an appropriation of the P&L account.

Piran Engineer: Okay my question is what is that number as of June and this is.... As of June what would it be?

Sudipto Sil: As of June it would have been around 350 odd crores.

Piran Engineer: Okay and sir what happens to the...

Sudipto Sil: Please don't mix it up. It is an appropriation, it does not....

Piran Engineer: Understood. So the difference between the 500 crores that we are required to make and the 350 crores that we have made, the 150 crore difference is part of our ECL of 4700 crores. Is that understanding correct?

Sudipto Sil: Yes, that is right.

Piran Engineer: Understood fine. Thank you so much sir. That's all from my end.

Moderator: Thank you sir. Next question comes from Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Thanks for the opportunity. Sudipto, I just had a follow up question on that. So when you say appropriation, you mean that from an accounting perspective it is part of the share holder's equity so it is not like a...

Sudipto Sil: Yes correct.

Subramanian Iyer: So it is still a part of tier I but it is not like a separate loan loss to serve on the balance sheet?

Sudipto Sil: But it cannot be used for servicing dividends.

Subramanian Iyer: Yes. Just a question for this quarter. You have 800 crores of provisions and your net change in the total ECL is about 550 crores. So the balance 250 crores, should I assume it as a write off?

Sudipto Sil: No I am not getting it.

Y. Viswanath Gowd: Somewhere something was missing I think. Can you ask once again sir?

Subramanian Iyer: So this quarter the provision through your P&L are about 800 crores and the net increase in your total ECL which you quoted in your PPT is about 550 crores. So the difference between the two that is of 250 crores because ideally you are provisioning through the P&L split of assets added to your ECL right. So the difference between these two, 250 crores should I construe it as write off?

Sudipto Sil: No it is not a write off.

Subramanian Iyer: So is it sitting under some other head?

Sudipto Sil: Yeah, it is not a write off. There is no write off in this quarter.

Subramanian Iyer: Okay under what head is it sitting then that 250 crores?

Y. Viswanath Gowd: Which figure are you talking about? One is about the provision we made 830 crores okay. Second figure of 250 you are telling, from where has it come?

Subramanian Iyer: I am looking at the difference between the total ECL that you have. Last quarter it was...

Sudipto Sil: There will be some errors. We will reconnect later on. I think you are not able to connect the right figures.

Subramanian Iyer: Okay fine, I will get back to you separately, thank you.

Moderator: Thank you sir. Next question comes from Riken Shah from Credit Suisse. Please go ahead.

Riken Shah: My question is already answered thank you.

Moderator: Thank you sir. Next question comes from Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So most of my questions have been answered just a couple of them. So when we see in terms of the behavior of this restructuring pull, which is may be in terms of the provisioning added to the impairment allowance. Suppose that restructuring fails and defaults, so when does it actually come under this P&L? Maybe what is the mixture of this restructuring? Is it like one year or two years moratorium? Just to understand the spreads coming into P&L what could that be over the time.

Sudipto Sil: Again Kunal let me clarify, the provisioning is already done, it is only the iGap provisioning under the IRAC and the ECL provisioning which is to be treated as impairment reserve. So as I mentioned in the earlier question.... I will explain to you. What happens is that right now that provisioning is made at the rate of 10% under the RBI circular. The moment it becomes an NPA, it will become 15%. So that will happen after the end of the restructuring period. Somewhere it is one month moratorium, somewhere it is one year moratorium and somewhere it is a two year moratorium. To answer your query, right now the provisioning is made at the rate of 10% as would be the Reserve Bank guidelines but you know that generally the required provisioning for NPA account is 15%. So the balance 5%....

Kunal Shah: Here in terms of 10% made and 5% just in term of the nature of restructuring, is it one year, two years....?

Sudipto Sil: Depends...mostly what we have given is that we have not given principal and interest moratorium to a customer. Very rarely it has been given. In most of the 90% cases we have given only principal moratorium. So the customer continues to service the interest.

Kunal Shah: Correct.

Y. Viswanath Gowd: So that is one thing we have tried to ensure so that there is some regularity in terms of the financial discipline. Now coming to your point, what happens is at the end of the moratorium, the customer is not able to service the principal or in the interim also he fails. In the interim if he fails, then the moratorium covers it. Thereafter after the completion of the moratorium period if the customer is not able to pay, he will be deemed to be an NPA from that day. At that point in time whatever is the provisioning requirements under the IRAC norms and also the ECL will be compared and whatever provisioning is required will be made.

Y. Viswanath Gowd: That is as per norms. The OTR now whatever the government says that we are doing at 10%, that's the approach.

Kunal Shah: Yeah, got it. Overall GNPA on the developer books....stage three on the developer books is how much? Is it 90 or is it a higher number?

Sudipto Sil: Developer GNPA as per the stage three account we talk of...stage three there is 24.4%.

Kunal Shah: Sir 18.9 is the individual non-housing commercial.

Y. Viswanath Gowd: Correct.

Kunal Shah: Yes that is individual non-housing. Developer 24.4 which is round about 3700 plus 300 crores of restructuring and then you mentioned stage two as well. So stage two is how much...2400.

Y. Viswanath Gowd: Our loan book size under developer loan is 15000 crores only not very high.

Kunal Shah: Yeah, that's true. Finally in terms of your restructuring on the retail side, so obviously that's where slow end are there will be in a pipeline. But anyway (not sure) will come from what? Can we get through larger part of it still with developer and we have window till September. So what is the kind of request we could get and how much put together restructure because in some of the players we have seen retail restructuring also to be quite higher because the EMI component of housing loan is generally higher and people tend to restructure there. So any expectations in terms of how much could be retail restructuring?

Sudipto Sil: I shared with you whatever has been the restructuring quarter wise under both OTR one and OTR two on the retail. So that will give some indication of what is coming up or what can be expected. For example in the fourth quarter that is March ending quarter, that time there was no OTR two, that time it was OTR one. So under that OTR one in Q4 we had restructured 1200 crores approximately...1190 something. So 1200 crores you can roughly take. Whereas in the first quarter of this financial year the number came down significantly. It came down to only 234 crores under OTR one and there was some around 45 crores or 40 crores under OTR two. So that number had come down to 300 crores in Q1 of this year. Generally what we have observed is that towards the end of the OTR window, the number of customers (not clear) that increases. Same thing happened in Q4 also. All through the initial months of the OTR there were hardly any applicants, towards the close the number of applicants increased significantly.

Kunal Shah: So I think 1% something we can take on the outside?

Y. Viswanath Gowd: Yeah that's the most because what happened, so far already we have restructured....

Sudipto Sil: Already restructuring has happened. At this point in time to take a number also, it will not be a correct guesstimate also....

Y. Viswanath Gowd: And one more thing is that people who have already availed this OTR, they also interested to come out of that. It is a pre-empted option so there also we are seeing some green shoots. That is also an advantage for us.

Kunal Shah: Sure. Okay.

Sudipto Sil: And this is considering the fact that non-retail segment, there are also eligibility criteria regarding getting the RT4 rating from the rating agencies. That also in many cases it is not..applicants are not able to obtain that

Kunal Shah: Sure. Lastly in terms of growth, sequential declining has been relatively higher. No doubt base Q4 is higher. There is an impact of (not clear) disruption; but otherwise housing has done relatively well in general because there was a momentum. So how should we look at the overall growth in the coming quarter? What we saw in H2 of FY21, should we expect that in terms of our competitiveness, it will be somewhat similar and we will get back onto the growth and this is just a temporary kind of moderation which is there?

Y. Viswanath Gowd: Sure, sure. As far as growth is concerned, this Q1 really was a good one compared to earlier. Already we have got more than 150% growth and even everyday activity is in full swing from June onwards. Then going forward, this Q2 we are expecting almost to have the same turnaround of Q4 of last year. We are looking at that. So with that what happens no? There should be a.....actually the current June which has recently gone, is one of the best of any quarter in the recent past in terms of disbursement. So the next quarter and also even the Q3 also we expect excellent business. Specially for Q2 we are aiming at repeating whatever we did in last year Q4 so that we can take a quantum jump with a great bounce back.

Kunal Shah: Sure, thank you and all the best.

Moderator: Thank you sir. Next question comes from Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: Hi this is Nishant, question raised in my individual capacity, not Macquarie. So just one question. Of all the home loans and the LAP NPLs that we have, I understand the LCDs that we are standing at are very comfortable. Only question is either the individual loans or the LAP loans, what percentage of those NPLs would pertain to projects which are still under construction? Like we would have valued the flat at say one crore, but that is assuming that the property has completed. If the project is stuck, then there is no collateral really to sell. So what percentage of our NPL cases would be such where the collateral probably is not currently in existence; it is stuck because the project is stuck or something like that. Because otherwise would there really be a big worry in terms of write offs or crystallized (not sure) in the individual kind of portfolio. That's my question.

Sudipto Sil: Yeah Nishant, the loan to value on the entire project portfolio is around 38 or 39%. The exact number is.....

Nishant Shah: Sorry to interrupt not on project but on individuals.

Sudipto Sil: Individual entities, two, three different categories are there. I am talking first of all individual home loans, the LCDs are around 44%, that is on the book. For the non-housing individual which is basically the LAP, there the LTV is around 31%. And in the non-housing commercial, the LTV is 34%.

Nishant Shah: Correct.

Sudipto Sil: That is as far as the LTVs are concerned. Now for non-housing individual and non-housing commercial, there is no execution risk because these are normally readily available or income earning properties. The question you have raised is relevant only to the individual home-loan segment. Here in the individual home-loan segment, please understand that however disbursement will also be vis-à-vis stage of construction. So when we are talking of an LTV, it is an LTV on the book. It means that the construction is 60%, then my disbursement to the customer also will not exceed 60%. So the LTV will hold. It is not that our exposure is more than the stage of construction. So if the stage of construction has not proceeded, then my disbursement would have also not proceeded and whatever construction would have happened, the example that you have taken, that the value is considered at the time of selling, it is not so. The value is considered at the time and to the stage to which construction has proceeded.

Y. Viswanath Gowd: And we also value at every stage. As it is now, the total valuation on the book also is always more than one to one and a half times will be there. In the project here also, so that is taken care of already, not a problem.

Nishant Shah: Understood. So just to get the side, say in a case where you have given a home-loan, where the LTV is 50% and the stage of construction is done about 60 odd percent, the "V" value over there in this LTV ratio is not the final selling price, it is....

Sudipto Sil: Absolutely not. The valuation that is done is only upto the stage of construction because my disbursement will depend upon the stage of construction and the valuation done at the particular stage.

Nishant Shah: Okay fair enough. Just to understand this a little bit better, I booked a flat on the 10th floor, and the building is now completed only upto the fifth floor. In this case how do you assign a value to the flat which is not even in existence yet in the case of a home loan?

Sudipto Sil: In any such apartment which is high rise apartment even if your property has not come, you have a claim on the undivided share of land.

Y. Viswanath Gowd: Proportionate share of land will be there.

Sudipto Sil: That is called as the undivided share of land. You as a customer, you can also state a claim, although my flat is on the 15th floor and the construction is completed upto the fifth floor, you still have a retail value in your investment. In any case, that particular property would not have proceeded to that extent.

Nishant Shah: Understood. So in this case when you disclose an LTV of 44% in case of a home loan where the project has not been completed, the value considered is the proportionate stake of land or whatever....it is not the ultimate selling price.

Sudipto Sil: No, the disbursement will also be done on that. If you have purchased the property and it is a 20-storey apartment and your flat is on the 19th floor, it does not mean that you as a customer start making the payment only when you have reached the 19th floor. You start making even at the fifth...

Nishant Shah: Got it. Then in that case, eventually crystallized losses from the home loan portfolio should be near zero right because an LTV of 44 is super comfortable. Then should we share the provisioning, the timing difference?

Sudipto Sil: Yes I will share some numbers which will give you some comfort. Write off, that is ultimate loss within the 42 years cumulative, in the home loan segment we have done less than 300 crores net and versus the amount of disbursement that we have done is more than four lakh crores. So that way if you look at it, ultimate loan losses will be in single digit basis points. But yes, there is a time which is required for recovery.

Nishant Shah: Okay and when we do the recovery, the interest accumulated is also recovered right? It is not just the principal amount?

Sudipto Sil: Mostly it will be recovered, somewhere it is required to be waived also but overall principal is not waived.

Y. Viswanath Gowd: Additional interest and all will be taken care. They have to be paid anyway.

Sudipto Sil: Some penal interest etc. in certain cases we have to take a practical call, looking at the IRR of the payout, not the exact amount.

Y. Viswanath Gowd: Our own norms are there and we follow as per NHB.

Sudipto Sil: We have to also look at the IRR.

Nishant Shah: Understood. Perfect, that's all I was trying to get to. Thank you so much.

Moderator: Thank you sir. Next question comes from Yagnesh Chauhan from Reliance Nippon Life. Please go ahead.

Yagnesh Chauhan: Good afternoon. Thank you so much for taking my question. I wanted to understand that we have filed an appeal with the SCity on the capital ratings. What is the status of that?

Sudipto Sil: Please notice very clearly we have not filed any appeals with the S-city. I repeat we have not filed any appeal with the S-City.

Y. Viswanath Gowd: We are only in touch with the exchanges whatever...

Sudipto Sil: We have also not received any instructions from SEBI. Only the stock exchanges have informed and you can refer to the disclosures that we make to the stock exchange. I feel that you should look at the disclosure we have made to the

stock exchange. The stock exchanges have asked us to withhold the result of the e-votings and exactly that is what we have done.

Y. Viswanath Gowd: We are waiting for further instructions.

Sudipto Sil: Further instruction is awaited. We have not filed any appeals in the S-city.

Yagnesh Chauhan: Okay sir, but there are some media articles which we have...

Sudipto Sil: We cannot be responsible for media but very clearly I am telling we have not filed any appeal with the S-City.

Y. Viswanath Gowd: We are fully compliant with the regulations and all; we are in touch with the concerned exchanges who are corresponding with us.

Yagnesh Chauhan: Okay, so what is the exact concern from the exchanges side on that?

Sudipto Sil: Exchanges have actually asked us for certain clarification....I would request you to kindly go through the disclosure. We have given very clear explanation etc has been placed with the stock exchange.

Y. Viswanath Gowd: Exchange site it is available, you can look into it. That gives you more details also.

Yagnesh Chauhan: Okay sir, thank you so much.

Moderator: Thank you sir. Next question comes from Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Sir good afternoon and thank you. My question follows...it comes from the earlier point you made that you had only 300 crores of write off in the home loan portfolio, would you also have....what is the amount of property you have sold and recovered money? In the sense that at what point you take a decision to sell the property and recover the money because that always has a negative customer impact and so on. That's my only question sir thank you.

Y. Viswanath Gowd: Normally what to do when the people fail and all? There will be a lot of follow up will be made to people to once again regularize account and all. In case it is almost become due for NPA then again pending for a long time, then people also try for all OTS and all, then what happens, under SARFESI they proceed and as per that we take physical possession, conduct auction and all these things are there and all that follows. That's the normal procedure.

Vivek Ramakrishnan: Yeah sir, would you have any idea of quantum of sales of properties you have done to recover monies? You said 300 crores is the write off sir....

Y. Viswanath Gowd: You want for the current year or so far? What do you want exactly?

Vivek Ramakrishnan: You could give like one, two years history also would be very good sir.

Y. Viswanath Gowd: Because of the recent past, because of the COVID and all, SARFESI and all were not on the expected levels. Earlier and all we used to have that one and every year out of those gone into NPAs, you could have seen actually some little bit of achievement level as far as the recoveries are concerned by selling the properties.

Sudipto Sil: Apart of selling properties, issuance of SARFESI notice also in many cases evokes an action from the borrower.

Vivek Ramakrishnan: Sure sir, I understand that. Thank you very much.

Moderator: Thank you sir. Next question comes from Ankit Agarwal from Yellowstone Equity. Please go ahead.

Ankit Agarwal: Hello sir, I just wanted clarity on the employee expenses, the arears part. I understand it is about 125 crores and it is one time but could you give some more qualitative color like what is it about?

Y. Viswanath Gowd: That salary amount you are asking, wage arears and all?

Ankit Agarwal: Yeah.

Y. Viswanath Gowd: In our company we have a wage policy. We don't revise salary every year here. Once in four years only we give escalation in salary. So that was due and from the year 2017 to 2021 it has been done in the month of June. So the arears had to be paid from 2017 onwards to 2021 and that has come to 125 crores amount. Henceforth only the regular salary will be paid compared to earlier quarter, there may be an increase of 15% overall as far as the payout is concerned for the salaries every quarter....every month.

Ankit Agarwal: And so why don't we do a provision for this because on an accrual basis, given that we will do every four years, it is kind of given that there will be some expense on accrual basis. Why do we take it like one-time? Why is this accounting policy....?

Y. Viswanath Gowd: Correct. Earlier there was no....what range it will be accrued and all, we had to go to the court for approval and all.

Sudipto Sil: It was not quantifiable at that stage but going forward what we have decided is that the next cycle whenever it is due, that is maybe in a couple of years from now, from that time onwards, every quarter we will provide, small, small amount might be; because if it comes every quarter, it will be a very small amount, done with prudence.

Ankit Agarwal: Right, right. Just sorry to come again on the OTR question. You mentioned that it is mainly in stage one and stage two, but on the other hand whatever deficiency is there between reserve and the provisioning amount, you said it is sitting in stage three provisioning. So why is there a disconnect there?

Sudipto Sil: Again kindly note that it is two different accounting practices. One is under IND AS and the other one is as per iGAP. RBI provisioning etc has to be created as per the iGAP which is being done. Only the balance between IND AS and iGAP has to be reflected through a creation of intermittent reserve. So please do not confuse the creation of a reserve with an OTR. They are completely different things.

Y. Viswanath Gowd: OTR also people should be eligible first of all to avail OTR.

Sudipto Sil: Please don't confuse the provisioning, whatever required is being done appropriately and correctly under the two different guidelines, that is the RBI guidelines of 10%, that also is being done.

Ankit Agarwal: Okay. On the collection efficiency, is it 98% for the month of June or the whole quarter?

Sudipto Sil: We have been tracking for each month. Here also you have to note that whatever collection happens for that particular month we consider for the regular accounts only that much of collection. If you add the collections of previous month, then sometimes the number may even exceed 100. So only for the accounts which are due for that particular month, the ratio is taken. Whatever is the NPA account, for them there is a different calculations which will any which ways get reflected to the NPA numbers.

Ankit Agarwal: Okay.

Sudipto Sil: And this number has been consistent even in the March quarter also where you will see it was around 97%, 98%.

Y. Viswanath Gowd: Now because of online collection, e-match payment and all helped us a lot.

Ankit Agarwal: Thanks sir. One last question. You mentioned there is recovery in one account. Is that related to builder loan?

Sudipto Sil: NO that was not a builder loan...

Y. Viswanath Gowd: It was a loan given to one corporate....LAP.

Ankit Agarwal: But sir, there was some account that was pending with LCFD, like four accounts regarding developer loans....what is the progress on that?

Sudipto Sil: There also there is some progress but....

Y. Viswanath Gowd: Now, because of pandemic and all we can't say....it will take some time.

Sudipto Sil: Only when resolution happens we will share that. Like we have shared this news also, this has happened in July so it is not obviously factored in the new numbers. It will be coming in the September numbers. But it is a progress and that's why we thought that it will be shared with the shareholders.

- Ankit Agarwal:** Understood. Thank you so much.
- Moderator:** Thank you sir. Next question comes from Abhishek Murarka from HSBC. Please go ahead.
- Abhishek Murarka:** I just wanted to reconcile the NPA numbers because there is some confusion and I will really appreciate if you can help me with the number here. As you said the retail mortgage book which is 1.8 lakh crore book (not clear) that has a 2.6%....
- Sudipto Sil:** Abhishek in the interest of time, I will read out the numbers and you can note it down.
- Abhishek Murarka:** Okay.
- Sudipto Sil:** This is as per IND AS so we will not talk of....this is stage three we are telling you now. Total assets are also on IND AS basis. So I will just tell you the numbers and we request you to kindly note down quickly.
- Abhishek Murarka:** Yeah.
- Sudipto Sil:** Individual home loans the stage three is 2.6%; if you want numbers it is 4727. Then in non-housing commercial, the stage three is 18.9% and the amount is 2707 crores. In non-housing individual which is mostly the LAP etc., there the stage is 11% and the amount is 2253 crores. And the project, the NPA number is 24.4% and the amount is 3889.
- Abhishek Murarka:** So if I add up all this...
- Sudipto Sil:** 13577.
- Abhishek Murarka:** Got it. Then the LRD portfolio is In the LAP book right?
- Sudipto Sil:** LRD and LAP is different. I have given you so many bifurcations. Part of the LRD is sitting in the project and part of the LRD is sitting in the non-housing commercial.
- Abhishek Murarka:** What is that bifurcation, can you give?
- Sudipto Sil:** See total put together the LRD book will be around 9000 crores.
- Abhishek Murarka:** And how much is in non-housing commercial?
- Sudipto Sil:** Those details I will share it separately.
- Abhishek Murarka:** Okay, this is fine, thank you.
- Moderator:** Thank you sir. Next question comes from Raghav Soni from Brand Capital. Please go ahead.

Raghav Soni: Hello? Sir can you please highlight the PCR, provision coverage ratio? I think in a news article it said 32%. Can you give an overview of that, how is that 32%? The reason is that we will be in a better position to understand about the future schemes...

Y. Viswanath Gowd: PCR now stands at 34% at the end of Q1.

Sudipto Sil: As of end of Q1 it is 34%.

Raghav Soni: Okay, thank you sir.

Moderator: Thank you sir. Next question comes from Saurabh Kumar from JP Morgan. Please go ahead. There is no response sir. Next question comes from Parameswaran S. from Jefferies. Please go ahead.

Parameswaran S.: Hi sir just reconciling some numbers. So if you look at slide 20, you said that ECL provision in stage one and two, total is about 113, 114 crores. Now on the restructuring side, I guess on a 10% basis you will need 550 crores. So is the balance 420 or 430 is that the impairment reserve?

Sudipto Sil: Again let me tell you, you are getting confused please understand the provisioning which is done for OTR is under the RBI IRAC norms. What you are talking about the provision under the ECL. They are completely different things. ECL is under....

Parameswaran S.: Yes it is entirely different. It is routed through impairment. 110 crores in stage one and stage two the total. Whereas the requirement is 550....

Sudipto Sil: No it is not. The requirement is not under IND AS, the requirement is under RBI IRAC norms. The numbers published are under IND AS. It may or may not contain. They are completely different things. The provisioning has got a pooled phase.

Parameswaran S.: What I wanted to understand is, 280 crores have moved up in this quarter. The 280 crore impairment reserve that you were holding as of last quarter whether it has moved up. Has it moved up this quarter?

Sudipto Sil: Yes it has.

Parameswaran S.: So what is that number outstanding now?

Sudipto Sil: Around 350 odd.

Parameswaran S.: 350 is the relevant number?

Sudipto Sil: Correct.

Parameswaran S.: Okay thank you so much.

Moderator: Thank you sir. Ladies and gentlemen that would be the last question for the day. Now I hand over the floor to the management for closing comments.

Y. Viswanath Gowd: I thank everyone for the very good interaction with every one of us. Looking forward now, the next quarter there will be a great bounce back and we are very confident that the disbursement specially will be in a higher scale across. Once again I will reassure all our stakeholders that we are fully committed to address all your concerns and I also thank you for your continued support. Looking forward to a very good and also more than expected growth in this quarter across all our regions with very good rate of interest what we are having and with the involvement of all our team members, we are looking for repetition of what we did in the last year Q4 in this Q2 now. Thank you once again.

Moderator: Thank you sir. Thank you everyone. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.