"LIC Housing Finance Limited Q4 FY'20 Results Conference Call"

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MODERATOR: **MR. PRAVEEN AGARWAL – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the LIC Housing Finance Limited Q4 FY'20 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Agarwal from Axis Capital Limited. Thank you. And over to you, sir.

Praveen Agarwal: Welcome to the Earnings Call. We have with us Mr. Siddhartha Mohanty – M.D. and CEO and Mr. Sudipto Sil -- CFO from LIC Housing. I would request Mr. Mohanty to give us a brief overview of the quarter gone by and thereafter we will open the floor for Q&A. Over to you, Mr. Mohanty.

Siddhartha Mohanty: Thank you. Good afternoon and welcome to the Post Earnings Conference Call of LIC Housing Finance Limited. As you would be knowing, LIC has declared its Q4 FY'20 Results on Friday, 19th June. Before beginning I wish you and your near and dear ones good health and hope you are all safe.

The "Key Highlights of the Results" are as follows: Revenue from operations were Rs.4,920 crores as against Rs.4,658 crores for the corresponding quarter of the previous year with a growth of 6%. For the full year, revenue from operations were Rs.19,697 crores against Rs.17,358 crores with a growth of 13%. Outstanding loan portfolio is at Rs.2,10,578 crores against Rs.1,94,646 crores as on March '19 reflecting a growth of 8%. Out of this, individual loan portfolio stood at Rs.1,96,340 crores against Rs.1,81,569 crores, there also a growth of 8%. Within the individual loan portfolio, home loan portfolio recorded a growth of 9%. Total disbursements for the quarter were Rs.11,325 crores as against Rs.17,242 crores for the corresponding quarter in the previous year. Out of that disbursements in the individual home loans were Rs.8,877 crores against Rs.11,743 crores. For the full year, disbursements were Rs.46,936 crores against Rs.53,908 crores with the individual home loan disbursement were Rs.37,539 crores against Rs.36,912 crores for the year '18-19. Disbursements in the project loan for the quarter stood at Rs.413 crores against Rs.2,031 crores. Net interest income for the Q4 was at Rs.1,089 crores against Rs.1,202 crores. For the full year, net interest income stood at Rs.4,689 crores, showing a growth of 10%. Net interest margin for the full year stood at 2.34% as against 2.38% for FY'19. Profit before tax for the quarter stood at Rs.826.72 crores against Rs.986.24 crores slowing a degrowth of 16%. Profit after tax for the quarter stood at Rs.421.42 crores against Rs.693.58 crores for the same period of previous year. Full year PAT stood at almost similar level; Rs.2,401.83 crores against Rs.2,430.97 crores for FY'19.

And our board has recommended a dividend of 400%.

Pursuant of announcement of COVID-19 as a pandemic, normal life and economic activity across the world has been severely impacted. There has been tragic loss of human lives and the numbers are still increasing. There has also been widespread disruption to business activities globally which will certainly have an impact on the growth of all economies. Since the situation is still evolving, the impact on the GDP is being assessed. However, it can be definitely concluded that we have not witnessed such impact on the global economy in several decades.

For the company, though we had a very good year for the past three quarters, there was a significant impact in Q4 which coincided with the financial year ending months of March which has been traditionally a very good and productive month in terms of business activities. As a result, the fourth quarter disbursements were impacted to a very large extent. For the quarter, the total disbursements were Rs.11,325 crores against Rs.17,242 crores for the same period in the previous year. However, despite all these challenges, the full year disbursements in individual home loan segment still clock a small growth over the last year and stood at Rs.37,539 crores against Rs.36,912 crores in FY'19. Consistent with our selective approach, the disbursements in the individual non-home loan category were lower by more than 30%. Also, project loans for the year were down more than 60% to Rs.2,618 crores against Rs.7,128 crores for the FY'19 with Q4 disbursement at Rs.413 crores as against Rs.2,031 crores. As a result, for the full year, disbursements were Rs.46,936 crores against Rs.53,908 crores, a decline of 13% year-on-year.

During the year, our performance in Pradhan Mantri Awas Yojana continued to be a very strong point with disbursement exceeding Rs.11,200 crores for the year, that is more than 25% of the retail disbursement, clocking a growth of 52% which the Q4 disbursement at over Rs.3,100 crores. And we continue to be confident of this segment as a growth driver in the coming years.

On the portfolio growth front, the total portfolio recorded a growth of little more than 8% and now stands at Rs.2,10,578 crores. As mentioned, the overall portfolio growth also got impacted as the disbursements in March 2022 were affected. As permitted by RBI circular on grant of moratorium, company offered EMI moratorium to its customers. About 25% in terms of value moratorium has been granted to the customers. However, in the current month, we have seen many customers who had opted for moratorium coming forward to make EMI payments. And as such, number is trending versus declining. Also, for the past two months non-moratorium collection stood at around 92%. We have constituted a branch wise task force to closely monitor and follow up the moratorium cases to ensure that there is a smooth transition to the regular payment once the moratorium period gets over.

In terms of asset quality, there has been a marginal increase in Stage-III exposure at default by 10 basis points from December '19. It was earlier 2.73, now at March it stands at 2.83. However, there has also been a decrease in Stage-II and improvement in Stage-I assets. Total ECL provisions as on 31st March 2020 stood at Rs.2,612 crores against Rs.1,659 crores as on 31st March '19 after taking into consideration the impact of COVID-19.

On the funding side, we have witnessed a reduction in overall cost of funds by 41 basis points during the current financial year and 53 basis points in incremental cost of funds.

Net interest income registered a growth of 10% for the year. Net interest margin for the year stood at 2.34% as against 2.38% over the previous year. However, for the Q4, there was a decline since collections were impacted in March and also due to the sequential decline in asset growth from 13% at the end of December to 8% by the end of March. The funding environment and liquidity conditions continue to be quite favorable for the company. During the quarter under review, we have raised funds through NCDs, bank loans, CPs and public deposits. The outlook on funding costs remains positive as the interest rates are on the decline in the economy. Cost of funds are likely to further decline in the coming quarters.

In the ensuing scenario post lockdown, the company moved seamlessly into the BCP and maintained all regular activities through work from home. As of now, nearly all offices have reopened and are functioning as per extent of guidelines on reopening of business establishment issued by local authorities from time-to-time. After a pause in April, disbursements have commenced in May and June and we have experienced good disbursements during last two months. It is particularly encouraging that fresh loan sanctions have also picked up and we have also had excellent experience for this sanction also.

Our newly launched mobile app, "HOMY" that was launched in the month of February this year and has also helped greatly in connecting to our prospects and home loan buyers. This year will pose challenges of the like we have never witnessed in past. However, we are confident that we will overcome all the obstacles and will emerge stronger.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: My question was on project loans. The disbursement in this quarter was around Rs.413 crores, but the sequential rise has been about Rs.1,000 crores. So, where is the disconnect here? So, if you see on the slide of disbursement that we report, the QoQ increase in the project loan number in absolute terms is nearly Rs.1,000 crores.

Sudipto Sil: Actually, the difference is because of the IND AS number which has been provided this time. There is a difference between iGAAP and IND AS number. This is the difference because of that. Otherwise, the disbursement is Rs.400 crores only for the current quarter.

Sanket Chheda: On asset quality, now that we have just made about Rs.27 crores in this quarter as a provisioning. On Stage-III, our coverage is one of the best, but on Stage-II asset, we hardly have any provisioning. So, what stands behind that? Also, our tax rate for this quarter was 49%. So, do you have any light on that?

Sudipto Sil: As far as the tax rate is concerned, this is actually if you look at it during the year in the month of August; there was a change in the taxation rate. The corporate tax rate had come down; however, the deferred tax assets which was created at a high rate had to be reversed. So, now what you have seen is basically the reversal of the deferred tax assets which was created at a higher rate and now being corrected at a lower rate. But, if you draw the full tax on a full year profit, then it will now be correctly aligned. The other query you had placed for the ECL provision, right…

Sanket Chheda: On Stage-II asset we hardly have any provisioning. So...

Sudipto Sil: There has been an improvement in Stage-II assets from December to March. But, if you see the Stage-III assets, the coverage on Stage-III asset is probably one of the higher ones in the sector.

Siddhartha Mohanty: If you remember this December Stage-II, out of Rs.2,035 crores, only Rs.530 crores moved to Stage-III in Q4 and almost Rs.1,700 crores moved back to Stage-I. So in that front, I think there is some improvement. If you compare Q3 and Q4 so slight marginal improvement is there.

Sanket Chheda: My question was that on the revised stage-II number which stand as of now on that only we have about 15, 16 basis of provisioning which stood very low against the other peers which have been creating a contingent provisioning pool for say...

Siddhartha Mohanty: Overall provisioning is 34.1%.

Sudipto Sil: See, overall provisioning, the ECL formula for provisioning depends upon the valuation of security and the loss-given default on a probability of default. So, only that portion of the provision is made at Stage-II which is certainly assumed to be having a deficient security or irrecoverable.

Sanket Chheda: In last two years, like our NPS had moved up from 0.8 to 2.8, mainly we have been taking our project loans and non-retail loans up in terms of growth. But we have not been witnessing any uptick in yield. There is continuous pressure on yields and hence our margins are on continuous headwind. So any color on that? Yes, yield on loans. So we have been taking our project loans, to see in last seven, eight quarters, but there has been no commensurate rise in the yields while we are witnessing the rise in delinquency on project loans.

Sudipto Sil: See actually, the reading on the total average yield also has to be taken into consideration the overall interest rate scenario in the economy. So, while there has been an increase in the project loans… and in fact I would say that in the last one year, there has been no change in the composition of project loans per se, it has marginally come down. Also, if you look at it, the share of assets in the non-home loan segment, that is the LAP and the LRD, that has also come down especially if you see in the fourth quarter and also during the full year. And overall interest rate scenario has been coming down. So, yield obviously will be in sync with the interest rate scenario.

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

Kunal Shah: Particularly on margin, just want to get to that number of 2.1 and relatively lower yield. So just maybe in the previous calls, we used to highlight that our collection is mostly in the first fortnight and lockdown started from second. So how much was the collection impact? How much was the interest reset impact? How much was the interest reversal impact on corporate NPL in terms of the overall margin sequentially everything from Q3 to Q4?

Siddhartha Mohanty: You see normally our experience is, the last part of financial year particularly last week, our collection is almost 15%. So, all other things are related to that. So that was heavily impacted because of that and everything. And normally if you see those which will go to NPA, people just pay one month installment. So that 90-days is not there. So that has been impacted heavily because of sudden lockdown. And that has impacted all other things.

Kunal Shah: No, no, but March collection any which ways it could be largely through checks and all. So I am not sure in terms of how March collection is impacting the margins ideally maybe because it is not again reflecting in terms of say GNPL rise particularly on the individual side. On corporate, there is a rise for individual still coming off. I am not understanding as to how the impact is there on NIMs?

Sudipto Sil: The impact is because of the interest component of the collection. Lot of collection happens especially because the drive for recovery peaks in the month of March especially in the last fortnight and where people also make payments. The customers might still remain in NPA, but there is a lot of amount of collection which happens which goes straight towards the addition towards interest income. So that is what our M.D. was...

Siddhartha Mohanty: Just pay one month to come out of NPA.

Sudipto Sil: So that portion of the collection which generally happens every year especially in the last month and more so in the final fortnight, that was completely lost.

Kunal Shah: No, sir, that should help in terms of the increase which is generally there in Q4. So maybe that increase is...

Sudipto Sil: That is a direct addition towards interest income. Mind you, I think you are getting confused between upgrades. I am not talking about upgrades at this point in time…

Kunal Shah: Sequentially, maybe if it would have moved up from 2.4 to, the delta would have been there if we would have collected more. Any which ways, it was not recognized and accounted for in Q3 also. So sequentially, why there should be a dip?

Sudipto Sil: Again, let me clarify it. There are a number of NPA accounts on which generally the payment comes towards the end of the year. It still remains an NPA. So, we are not talking about upgrades. So that NPA number may not change, but there is collection against those accounts. You just kindly refer to one data point which I shared in all the last couple of quarterly calls. Even within the NPA accounts, there is a collection. The accounts have not moved out of NPA. If you recollect, we have shared this number in both the two previous quarters. So, that number has got impacted. So this has actually nothing to do with the upgradation of the NPA which you are referring to which happens in the fourth quarter. Obviously, that did not happen. But over and above, there is collection which comes in. Even within the NPA accounts, people try to make up as much as they can without maybe materially changing the NPA numbers. That collection impact in fact did not happen.

Kunal Shah: How many loans got reset lower which would have led to decline in yields?

Sudipto Sil: As of now, the number I would not be able to share off hand. But yes, there has been an impact of that also but not to that extent in the month of March. The other impact which has led to the decline in the net interest margin is the decline in the overall asset growth which was 13% as on December and which has come down to 8% by the end of the March, plus coupled with it, the change in the mix of incremental disbursals.

Moderator: Thank you. The next question is from the line of Mr. Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Just two questions: First one is what is your view on the leverage side -- do you think you need to raise capital anytime in the near future?

Siddhartha Mohanty: Actually, if you observe we are now adequately capitalized. At present there is no such thinking to raise capital and at appropriate time our board will take a call whenever we need.

Sudipto Sil: If I may just add to this, if you look at it, the asset growth which was clocking around 13%, 14%, 15% for the balance part of the year has come down to 8%. And also the project loans which consume much higher capital, disbursement has hardly happened this year.

Nischint Chawathe: So the rise in GNPLs on QoQ basis, all that was on the developer loan side or was it on both developer and retail?

Siddhartha Mohanty: Actually, developer loan obviously as usual, it is more.

Nischint Chawathe: But what is absolute quantum of developer loan NPA?

Siddhartha Mohanty: Around 17%, 2,500, 2,600 it will be like that. Developer loan if you see there has been some degrowth in the total NPA, some few crores, like Rs.26, 30 crores less in that...

Nischint Chawathe: The increase on the developer NPA from around Rs.2,000 crores to Rs.2,500 crores for like one account, multiple accounts?

Sudipto Sil: No, it was not Rs.2,000 crores. It has increased by around Rs.300 crores.

Nischint Chawathe: This is one or multiple accounts?

Sudipto Sil: Multiple.

Nischint Chawathe: If you could give some qualitative picture in terms of a) what is your visibility on where this goes over the next six months? And second one, in terms of any efforts on resolution on some of the accounts, what is happening out there? I want some outlook on where you see these numbers headed for next six months, I mean are all the developers under moratorium right now and what is it that you seeing on the resolution of these assets?

Siddhartha Mohanty: Actually, if you observe, this is SWAMIH Fund that has now created, this SBI Caps, they are managing. LIC is also one of the promoter of that fund. There we have 17 accounts before them, one has already been resolved, maybe disbursement they are very soon all signing, everything is over and total 17 cases and around Rs.1,100 crores. So, if those are being resolved in the current year, so to that extent, we will get benefited, so that will be there. And apart from that, some other accounts also we were following up, but this sudden lockdown, we could not get money. So, I am hopeful before September, some improvement will be there in those accounts, some builder book.

Nischint Chawathe: The 25% loans on the moratorium are only for retail or retail developer both put together?

Sudipto Sil: All put together.

Nischint Chawathe: And the breakup between retail and developer?

Siddhartha Mohanty: Developer is 75% of the total book size, they have approached for moratorium.

Nischint Chawathe: And the balancing number will be for the retail?

Siddhartha Mohanty: Yes.

Nischint Chawathe: There was an increase in operating expenses for the quarter. Any specific driver out there?

Sudipto Sil: Yes, there was one item, that is for Corporate Social Responsibility, (CSR), provision of Rs.40 crores was made in the other expenses.

Moderator: Thank you. The next question is from the line of (Prashant Shah) from Macquarie. Please go ahead.

Nishant: Nishant here. Actually, I just wanted to let a few data points and just thoughts around those data points. So first, can you give the capital adequacy numbers, tier 1, tier-2, etc., for the year ended FY'20?

Sudipto Sil: Yes, this capital adequacy number as per convention, it has to first go to NHB. And once it goes to NHB, only then we disclose it. So, it will be put up officially maybe in a couple of days. Apart from that, directionally we can share that tier-1 by and large will remain wherever it is. Tier-2, we had exercised the call option on Rs.500 crores 2 in the month of March. Through that exercise it will come down. Otherwise, directionally as far as tier-1 is concerned, it will remain wherever it is.

Nishant: So there is no thoughts around any capital raise at this time, right?

Siddhartha Mohanty: At appropriate time, we will take a call. As per NHB provision, NHB decided at 2020 13% CR should be there, 2021 March 14%, in 2022 15%. So, we are well above that, we are maintaining that balance.

Nishant: Just clarifying on this one data point. I think you mentioned that NPL in the developer segment are at around 17%, so roughly Rs.2,500 crores, is that right?

Siddhartha Mohanty: Yes.

Nishant: A couple more smaller questions. So there is a negative other income recorded this year of about Rs.33 crores this quarter. So, what would that be?

Sudipto Sil: If you look at it, it is a revenue neutral item. You would be aware that we had done external commercial borrowing in the month of December. As per the IND As and the Institute of Chartered Accountants guidance notes, any foreign exchange fluctuation will have to be recorded. However, this is a fully hedged facility. So the corresponding entry will be categorized under (OCI), i.e., Other Comprehensive Income. So, it is a neutral entry. There will be an entry at income level and also at the OCI level.

Nishant: I think one place in the press release you had mentioned that there is a little bit of difficulty in trying to figure out what the COVID-related provision should be. Like if you look at...

Sudipto Sil: We said that the impact of COVID on business. If you look at the published accounts, it is very clearly mentioned that the impact of COVID has also been taken into consideration while arriving at the ECL, If you look at the published audited accounts and the notes to account, it is very clearly mentioned in, I think, point no. 6 or 7, I cannot recollect exactly.

Nishant: So my question actually is that like most other NBFCs, HFCs have taken some bit of like additional conservative like provisions. Do we intend to do that in the next quarter or are you just comfortable with the current coverage levels?

Siddhartha Mohanty: Yes, there have been some four different COVID scenarios which have been adopted and which have been put into the ECL model while arriving at the provisioning. Now, you have to understand that ECL or Expected Credit Loss has to do with the dilution and security value of the assets which is also linked to the loan-to-value ratio of the portfolio. So, now if you look at it, traditionally, even at the stage of sanctions, the loan-to-value ratio is less than 50%. On the portfolio, it is much less in the 40s. So, the security value dilution has been applied vis-à-vis the COVID scenarios. Four different scenarios have been applied plus the normal three scenarios and we have gone with the most conservative of them, which has given this output of the ECL. Now, if you look at the Stage-III provisioning for the ECL for our company, it is one of the highest in the sector; 44%.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: I just had a follow-up question on margins and on the moratorium. Firstly, the moratorium numbers are as of end May, is it?

Siddhartha Mohanty: Yes, up-to-date.

Mahrukh Adajania: So what has been the experience in June? And could you separately specify what the moratorium on core housing and on LAP was?

Siddhartha Mohanty: You see, our experience as of June, people who have taken moratorium, they have started paying. Roughly around 20,000, 21,000 accounts who opted for moratorium, they are paying. So June onwards our collection is also going up. That is one good sign. Despite this uncertainty about the duration of pandemic, some growth we are experiencing. Because now people are very clear, moratorium means they have to pay interest on that amount. Though court case is pending, Supreme Court will hear it in August, but people have understood that this EMI deferment is with a cost. So people who can afford, they are paying.

Mahrukh Adajania: So this 25% number would have come down by how much?

Siddhartha Mohanty: 25% is the amount. Number will be much less; it is 15%, 16%.

Mahrukh Adajania: This 25% of amount that would have come down by how much in June?

Siddhartha Mohanty: That we will exactly assess because if you see number wise 21,000 people, they have opted out of moratorium, they have started paying.

Mahrukh Adajania: How much was the retail moratorium separately for core housing and for LAP?

Siddhartha Mohanty: That is around 12-13% only individual housing loan.

Mahrukh Adajania: And LAP would be?

Siddhartha Mohanty: 32-35%.

Mahrukh Adajania: In margins, you said that collection on NPL did not happen in March because of the lockdown. So this is only end March or it happens every end quarter?

Siddhartha Mohanty: Our experience is last 10-days, around 15% collection every year we get. So that has been greatly impacted. So that has also had impact on all other financials.

Mahrukh Adajania: Interest income reversal on NPL in the fourth quarter versus third quarter?

Siddhartha Mohanty: There is no reversal.

Moderator: Thank you. The next question is from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: Just a couple of questions. Firstly, a follow-up on moratorium. Just wanted to understand this 25%, how would that have moved over the last few months? So 25% as I understand is currently. What was this say in April and May? And any changes you have made to the moratorium norms? Secondly, what would have been your provision had you not built in this additional stress which you mentioned is already incorporated in your provisions because sequentially we have seen really your provision companies going down at Stage-III level?

Siddhartha Mohanty: That will be Rs.79-80 crores and so far as moratorium is concerned, actually going down, amount wise if you see since I told we have collected 21,000 accounts they are paying who have opted for moratorium, so amount-wise whatever was initially under moratorium as per RBI. Total RBI guidance we are following. So that amount is also coming down in moratorium. Only thing is that we are now more concerned when this period ends. So how to bring all the accounts back on track? So that is of more concern now. So those who have opted for moratorium, they should not slip into NPA. So that is the biggest concern. And consciously, we are now working and our teams after that all moratorium accounts they are closely monitoring.

Bhaskar Basu: What would be the amount of assets which would have probably slipped had there been no moratorium as of March end?

Siddhartha Mohanty: Had there been no moratorium, this is the same amount, 25% people opted means they might be under stress, less amount would have slipped… exact quantification...

Sudipto Sil: That is very difficult because people started applying for moratorium initially and then they withdrew also out of moratorium. So that is not a very accurate. 27th March, RBI had come out with a moratorium announced. It was in March only when the announcement came. So this is a very difficult number to actually… it will be just speculation.

Bhaskar Basu: What is your thoughts on the project segment in terms of how do you see that going forward once after this quarter obviously has been impacted by lockdown, but in terms of disbursal, we have already seen a big decline last year, what is the strategy there?

Siddhartha Mohanty: We are not going in general for funding all projects. Very-very specific projects in which units can be sold. And in today's context, if you see only affordable segment, mid segment, there is market and there is also demand. And in my experience post-COVID, last 1.5-months after May 20th till now this affordable segment, mid segment, we are experiencing some good growth. So projects which cater to this segment, definitely we will be funding those projects looking to the viability and mainly what will be the sale velocity. So that is first and foremost. And at this segment, there will be always demand. In coming days also, there will be demand. But so far as luxurious premium segment, I have my own doubt, very difficult because already inventories are lying vacant in cities like Mumbai, big places, big, big, Rs.5, 6, 8 crores apartments lying vacant. So those will be very risky option for us.

Bhaskar Basu: Last year, I think the strategy was to not give any incremental disbursal in this segment. So whatever was sanctioned was being disbursed…

Siddhartha Mohanty: In fact, heavy loss in project segment, we have done high degrowth.

Moderator: Thank you. The next question is from the line of Viral Shah from Credit Suisse. Please go ahead.

Viral Shah: This is a question for Sudipto. Under IND AS, now there is no interest income reversal, right on NPA. So I am not able to reconcile as to how does this have an impact on the margins in the fourth quarter, if you could help me with this?

Sudipto Sil: The margins I think that time what I said there are two distinct points that I shared -- #1 is that there is interest income collection which happens on the NPA accounts, physical collection of the dues where there is no change in the DPD. So that is a clear collection which has not happened. We cannot accrue that. Number two is that there has been a decline in the overall asset growth from 13% at that point in time in December to 8%. So, when there is a decline in the assets, obviously, this will have an impact on the revenue generation. Thirdly, what we also mentioned is that there has been rewriting on some of the accounts from a higher rate of interest to a lower rate of interest as a retention strategy. I did not mention anything about IND AS.

Viral Shah: You can correct me if my understanding is wrong, that on stage-III assets under IND AS, you did not have to collect the interest actually, you can accrue it, recognize the interest on net stage-III portion. So in your case, it would be either 57% of stage-3 assets post your PCR. You can accrue interest on that much assets which are there, is my understanding wrong?

Sudipto Sil: I think it is slightly different actually.

Viral Shah: Okay, maybe I will take this offline.

Sudipto Sil: Yes, we will discuss.

Viral Shah: The other question I had was on the OPEX front. You mentioned that you had a CSR expense of Rs.40 crores in this quarter. But I believe that this is something which would have been there in the base as well right?

Sudipto Sil: Last year it was not there.

Moderator: Thank you. The next question is from the line of Subrat Dwibedy from SBI Life Insurance. Please go ahead.

Subrat Dwibedy: Just wanted to know what will be the bond issuances in H1 and H2?

Sudipto Sil: Bond issuances actually Friday only we have closed one bond. At this point in time, we do not like to share the number, but certainly, now the bond deals have started coming down significantly. In fact, we have very recently done a three-year issuance at 5.9%. The liquidity is very good and we will be coming with various tenors.

Subrat Dwibedy: But any sense on how much will be the borrowing plan for the year?

Sudipto Sil: Borrowing plan will have to be recalibrated looking at the disbursement overall what we have planned initially and what likely is going to happen. This year, we will have to recalibrate it. Maybe in a few weeks from now we will have a clearer picture once the entire lockdown stuff is removed. But it will be more or less in sync with whatever it was last year.

Subrat Dwibedy: Secondly, on this project loans, you mentioned the stage-III is 17%. What will be the stage-II there?

Sudipto Sil: Stage-II for project will be 2.5%.

Subrat Dwibedy: In your LAP book, how much will be the self-occupied premises which are mortgaged?

Sudipto Sil: Majority, I think more than 95% will be self-occupied.

Moderator: Thank you. The next question is from the line of Kaushik Agarwal from Haitong Securities. Please go ahead.

Kaushik Agarwal: Sir, I have two sets of questions. Sir, can you please give stage-III number for individual bifurcation into home loan and LAP segment? And my second question is, recently we have seen some rate cuts in the loan which you provide. So how is the demand being evolving and in which region are we seeing some pickups in demand?

Siddhartha Mohanty: Individual retail stage-II is just 4.79%. And as project already told 2.5%. Home loan demand, as I told this affordable segment, mid segment, we are experiencing good demand in retail side and in tier-2, tier-3 cities also.

Sudipto Sil: There has been some distinct pickup in the month of June after a pause in April and middle of May onwards they started picking up, but June the first fortnight fresh sanctions nearly Rs.2,000 crores we have done. So, that is a very encouraging sign because these are all fresh sanctions. And total disbursements that we have done till now is almost Rs.2,000 crores. Bulk of which has come in the last 15-days. Situation is improving a little bit. Slowly, slowly it is opening. So as mentioned, the affordable and mid housing segment, the demand will continue to be reasonably good.

Kaushik Agarwal: This Rs.2,000 crores disbursement which you just said is in tier-2 and tier-3 cities, right?

Siddhartha Mohanty: Across, but mostly tier-2 and tier-3 cities also experiencing good growth.

Moderator: Thank you. The next question is from the line of Vihag Mishra from Kotak Mutual Fund. Please go ahead.

Vihag Mishra: My primary question is on the yield segment wise. What is the yield right now for each of the segments -- retail loan, LAP and developer incrementally?

Sudipto Sil: Incremental yield in the retail portion ex of the LAP and others will be in the range of around 8.3%, 8.4%. All categories of loans put together in terms of annualized. As far as the LAP is concerned, it will be closer to 10%, 10.5%. Very little builder loans have happened in this current year. But mostly I feel that should we do a loan, it should be a good quality loan, 12-13% you can take.

Vihag Mishra: And next question is how is the ALM profile looking like for next six months to 1 year?

Sudipto Sil: ALM is actually quite comfortable now. In fact, it is better than what it has been for many-many quarters because we had actually completed the last year's borrowing in the month of February itself and all through March, we were buffering up for disbursement which did not happen. So, to that extent, you can also see in our closing balance sheet the amount of cash that we were holding which is one of the highest. Further, fresh bank lines have also come in. And from last week, we have started hitting the bond market also at very good levels. So, ALM looks quite healthy.

Moderator: Thank you. The next question is from the line of Amit Ganatra from HDFC Asset Management. Please go ahead.

Amit Ganatra: One small clarification. See, this stage-I, II, III assets classification, that has been done as of Feb 29th or that has been done as of 31st March?

Sudipto Sil: Year-end.

Amit Ganatra: Now suppose if a customer became an NPA but he opted for a moratorium, then where does it get categorized?

Siddhartha Mohanty: As on 29th February, if it is NPA, that will continue to be NPA, we have taken into account. Those who are prior to March 1st which were NPA, those will continue to be NPA.

Amit Ganatra: So in that sense, Stage-3 that we are seeing is as of 29th Feb classification, right?

Siddhartha Mohanty: Yes, if they are NPA as on 29th.

Moderator: Thank you. The next question is from the line of Manoj Bahety from Carnelian Capital. Please go ahead.

Manoj Bahety: I have a couple of questions: First one is, like if I see at the moment of our portfolio the way our project loans are coming down and individual portion of loans going up. Secondly, if we see the incremental yields even from banks, the way the competition from the banks is going up in this segment. Thirdly, definitely, the interest rate benefit which is coming to us also because of excellent liability franchisees which we are having. If you club all these three elements together and if you would like to see your NIMs and spreads going forward, so how do you see your NIMs and spreads going forward? That is one. Secondly, what will be the strategy? Like the project portion of our loan book is going down, what will be the strategy going forward to maintain our spreads and NIM level?

Siddhartha Mohanty: Obviously, project loan and other things consciously we are now focusing more and more on retail loan. And as you told, retail loan means margin is less. But our focus will be retention of loan book so that lower slippage is there; lower NPA is there so that at least through retention if NPA is less then also we can make something. And project loan, we are not totally stopping. We will give good project loan where sale velocity is there, that fellow can be able to sell units and pay back our loan. Affordable segment and mid segment, that will also be there. Since cost of fund is going down and we are now going more and more technology way, we are not going for massive recruitment. That will not be there in coming days. So, we are there to control our cost. Unnecessary expenditure and cost, there will be control on that. Because we are in competition. We have to make some margin in a competitive way because interest rate is also competition. Today, we are giving home loan at 7.5% interest. And renewal of old loans also we have allowed them to rewrite at 8.5% which was earlier 9.5%, 9.7% at a different time. so that they are retained with us, they do not go through banks and other institutions, as I told, competition is there, so to retain the books, so we have also given that facility to our customers. So taking into account all these things, I think we will be able to make whatever margin you are seeing today definitely at least to stabilize or some improvement will be there by March 2021.

Manoj Bahety: If I got it right, essentially, what you are saying, even if there is a dip in NIM and spreads, that will be taken care by low credit cost and saving on OPEX, right?

Siddhartha Mohanty: Yes, to some extent.

Manoj Bahety: Second question is mainly on asset side. A couple of questions there: First one is like if we see our even individual retail LAP book, is there some LRD portion?

Siddhartha Mohanty: LRD is also there in LAP.

Manoj Bahety: So any color you would like to give like considering the force majeure clause, with these guys, it has completely stopped their cash flows, so how you are seeing that segment and what kind of stress you are seeing in the book? …firstly sir, how big is that LRD book out of 17%?

Siddhartha Mohanty: 10% is LRD and particularly new LRD cases we are very, very careful because looking into present situation, we are more careful, in fact, for time being, we have kept it on hold.

Manoj Bahety: Rs.3,500 crores is existing LRD book?

Siddhartha Mohanty: Less than Rs.4,000 crores.

Manoj Bahety: Any color on stress testing on that book, like how do you see that book?

Sudipto Sil: See, the LRD here also, which we have taken around Rs.4,000 crores. At the time of sanctions itself, the SOP requires that there will be some kind of a buffer built in vis-à-vis the rental income to factor in for vacancy risk. Vacancy risk is taken into consideration. Secondly, the loan-to-value is very stringently maintained at 50-60%. There is adequate security cover there. Lastly, on top of that, obviously all the rentals are secured through escrow plus we also take about two to three months of EMI as (DSRA), Debt Service Reserve Account. So all those things are actually standard SOP not for now, but right from the beginning of introducing this product.

Manoj Bahety: So as of now, you do not see any kind of much higher stress on this part of the book, right?

Sudipto Sil: Actually, if you look at it, the people who felt that they have got some challenges have applied for moratorium and they have been granted moratorium also. So the advantage of that is they have been able to preserve cash flows for five to six months. It is not that the rentals have come to zero...it might have reduced, but it has not come down to zero. So this four or five months of moratorium that they have received will help them conserve the cash flow and improve their position.

Manoj Bahety: On our developer book, I think you have mentioned that stage-1, 2, 3. So, if you can give a breakup of between GNPA stage-1, 2, 3 especially of our developer part of the book, that will be helpful?

Siddhartha Mohanty: Developer stage-I is Rs.11,322 crores and stage-II is Rs.362 crores and stage-III is 2,530 crores.

Moderator: Ladies and gentlemen, due to time constraint, we will take this as a last question. I would now like to hand the conference over to the management for closing comments.

Siddhartha Mohanty: So thank you very much. And at this unprecedented time, all of us should have a positive approach and LIC Housing Finance is already addressing the issues post-COVID. And we are confident that in coming days, we will definitely fine-tune all our operations to meet the challenge and which we never expected earlier, this year definitely we will show our best and already work has started on technological front, LIC HFL has taken many initiatives and it will be a totally technology-driven company and the costs and other fronts already we have discussed. So I can assure my investors that in coming days, you will find all the positivity in LIC HFL. Thank you. All the best. Take care.

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