



“LIC Housing Finance Limited Q1 FY 2017
Earnings Conference Call”

July 18, 2016



ANALYST: **MR. PRAVEEN AGARWAL- AXIS CAPITAL**

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



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Moderator: Good morning ladies and gentlemen. Welcome to the LIC Housing Finance Q1 FY2017 Earnings 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 the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you and over to you Sir!

Praveen Agarwal: Thank you. Good morning everybody. We have with us Ms. Sunita Sharma, Managing Director & CEO and Mr. Sudipto Sil to discuss the results. I would request Ms. Sharma to take us through the key highlights of the results post, which we will take the Q&A. Over to you Madam!

Sunita Sharma: Good morning. At the outset, I welcome all the conference call post our Q1 FY2017 results. As you would be aware we have declared the Q1 FY2017 financial results last Friday. The key highlights are as follows:

Income from operations is at Rs.3326 Crores up by 14%, net interest income at Rs.825 Crores up by 25%, loans disbursals up by 23% at Rs.7522 Crores, loan portfolio up by 15.42% at Rs.127437 Crores, net interest margins for the quarter were 2.61% versus 2.41% as on Q1 FY2016.

Gross NPAs are at 0.59% against 0.60% a year back. Individual loans GNPA down to 0.35% from 0.36% as on June 30, 2015. Net NPAs were down to 0.28% from 0.33% the respective period. Profit before tax at Rs.623.43 Crores growth of 8%. Profit after tax is at Rs.407.84 growth of 7%. During the quarter the company grew its disbursements by 23% with retail disbursements clocking at 19% growth year-on-year.

We saw some pickup in the most of the geographies led with southern and western parts of the country. Improvements in enquiries have been noticed across the board on the core mortgages that is individual home loan segment the disbursement growth is 14% higher than most of the last year's with our continuing focus on the core mortgages. Overall loan portfolio stood at Rs.127437 Crores, a growth of 15.42%; the individual segment growth is around 15%.

There has been a slight reduction in the premium in (inaudible) 03:13 largely as a result of our efforts to retain customers. Net interest income witnessed a strong growth during the quarter with the year-on-year growth at 25% to Rs.825 Crores. Net interest margins recorded a strong growth of 20 basis points from 2.41% to 2.61% for the quarter. There has been further decline of corporate bond yields, which should help us drive down our cost of funds further. During the quarter we have further reduced our bank borrowings, which now stand at 10.75% of total liabilities. The asset quality too recorded a year-on-year improvement. The gross NPAs were at 0.59% as against 0.60% for the corresponding period.



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In the individual loan segment the GNPA has declined to 0.35% from 0.36% on a year-on-year basis. Net NPA declined to 0.26% from 0.33% a year back. Though there has been a year-on-year improvement in gross NPAs, there has been increase in provisions due to one-time provision of Rs.92 Crores, which has been made on project loan, which has already been classified as NPAs on account of ageing that is a transition to the higher provisioning bucket as per provisioning norm. The accounts in question had been provided for 100% even as GNPA process of recovering our dues.

During the quarter the company also incurred an expense of Rs.20 Crores towards payments of arrear of wages and higher actuarial valuation (inaudible) 04:55 sector, which has increased overall expenses by above Rs.30 Crores. Due to this extra provision in expenses our profit before tax appears muted and stood at Rs.623.43 Crores as compared to Rs.579.02 Crores, a growth of 8%. Consequently, profit after tax also has stood at a lower growth at Rs.407.84 Crores at 7% over the previous year. With this brief introduction let me welcome you once again invite your queries. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Good set of numbers on the operating side. Madam two questions; firstly in terms of say the other corporate developer accounts, which are there today in NPL, how are we seeing the resolution out there and would this also call for a seasoning say in FY2017, if these cases does not resolved. On the corporate NPL would there be further requirement to inch up the provisioning? That is the first question. Secondly in terms of this wage arrears if you can just give us an update, this is only for this particular quarter and entire thing is done for this particular fiscal and what is this entire wage arrears on account, so is that anything to do with the pay commission or something?

Sunita Sharma: Wage arrears are actually some trailing amounts, which we had to pay to the employees. We revised their wages during this first quarter and we revised it from a particular date because of that some particular wages are there, that is what is arrears have to be paid and as such the NPAs are concerned most of the NPAs have now been provided that is the project loans NPAs have been provided for 100%, so I do not think there will be probably one left, which can be there be next year or maybe this year, I am not very sure which date, not much is left, most of it has been done already.

Kunal Shah: So this arrears you are saying this is the normal wage rise, which happened, so this would be, so accrual would be for this Rs.20 Crores?

Sunita Sharma: Five years.

Kunal Shah: Okay, so wage arrears are for five years almost.



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Sunita Sharma: Yes.

Kunal Shah: And the normal increment would be in this?

Sunita Sharma: Normal I think it is around 12% to 13%.

Kunal Shah: So 12% to 13% is the kind of growth, which have been there in the arrears, which we have considered in Q1?

Sunita Sharma: Yes.

Kunal Shah: It is not amortized, so this is nothing, which will come in Q2, Q3 as well, this is just done and out in terms of the entire project?

Sunita Sharma: Some of it may come in Q2, but not this much of amount; some small amount will come in Q2 also.

Kunal Shah: Okay, some small amount will come in Q2?

Sunita Sharma: Not this much.

Kunal Shah: Madam lastly in terms of margins, how are we seeing the trajectory with the LAP proportion, so where do we finally want to take the LAP proportion in terms of the overall book, which is today at 9.3%, so do we see it moving towards 15% and this should help the overall margin trajectory as well?

Sunita Sharma: Last time Kunal I remember in the concall most of the investors had this concern about increasing the LAP portfolio. I had promised in the last concall that we will now be focusing more on core business that is our mortgages home loans and we have done it. I do not think 14% growth in mortgages was possible throughout the year last year, but this year we had done in the first quarter itself, so we had said that what we promised actually we are delivering. I am not making a particular statement, but this is what has happened, so we will be focusing on individual home loans that is core business, but since we have started working on non-core or you can say LAP portfolio, some good LAP portfolio we have already been able to collect and 11000 Crores have already come under that particular portfolio, I think that is going to generate us interest income plus we expect some traction on the interest borrowing cost also, some benefits will come from there also, so I think we should be able to deliver better margins, I mean there should improvement only and we are not going to focus more now on LAP business so that we are able to increase the margins. Margins will be improving automatically because already had built up a portfolio of LAP.



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- Kunal Shah:** So the only thing is when we look at the disbursement growth in individual that is till 14% in Q1 may be last year obviously it was much lower, but when we look at it overall in terms of the book growth obviously it would be picked up as compared to that of FY2016, but it is lower than the book growth, so that extent may be the proportion of our core business would be I think slightly on a lower side only, unless it picks up close to 15, 20% or so?
- Sunita Sharma:** No, what will happen is, it is first quarter and it is a transition time. When we take the transition after sometime you will see that the core business will be more than the non-core business. We have shifted, in the last year we were focused more on non-core business you can say LAP business, but in the first quarter we focused more on core business, all of the shift has started, we have grown better in the core business, it will definitely have a greater impact in second quarter, third quarter and fourth quarter, so we will start growing more in core business than in non-core business. In any case we do not need that much of non-core business now because we have already built up a good portfolio.
- Kunal Shah:** Build up that yes it is almost like 10% of the individual. Thanks a lot and all the best for the future quarters.
- Moderator:** Thank you. The next question is from the line of Amit Ganatra from Invesco Asset Management. Please go ahead.
- Amit Ganatra:** You said that the retail individual core business disbursement growth was 14% year-on-year. Can you share the absolute numbers because I do not have the numbers previous year first quarter also?
- Sunita Sharma:** The absolute number for this year is Rs.5922 Crores and the last year figure was Rs.5200 Crores.
- Amit Ganatra:** Also in terms of gross NPAs is it possible to share the breakup in terms of what is the percentage of gross NPAs for your project finance book, what is the percentage in core retail and what is the percentage of gross NPA in LAP book?
- Sunita Sharma:** Yes we can tell you, you want the amount?
- Amit Ganatra:** Amount is also fine, we can calculate, so Rs.757 Crores is the total gross NPA this quarter, if you can give the breakup that will be helpful?
- Sunita Sharma:** Individual loan is Rs.434 Crores and the project loan is Rs.322 Crores.
- Amit Ganatra:** What was this number previous year first quarter?
- Sunita Sharma:** Previous year's first quarter was Rs.271 Crores for project loans and for this year it was Rs.387 Crores.



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- Amit Ganatra:** Rs.387. Thank you.
- Moderator:** Thank you. The next question is from the line of Adarsh P from Nomura. Please go ahead.
- Adarsh P:** Congrats on very set of numbers. First question was on incrementally today just want to check where are the spreads on the core mortgage book, what rates are we lending at around average, the incremental disbursements and at what rate so broadly if you just give me some sense in that?
- Sunita Sharma:** Incremental spreads are around 2%, 1.98%.
- Adarsh P:** Madam, but that would be for the whole book right, which will include LAP and builders, so what approximately would be the spreads on just the core mortgage book?
- Sunita Sharma:** Core mortgage book I do not have the numbers, yield will be around 10.15% you can calculate from there and whereas the overall yield is 10.68%, so you can calculate from there if it is possible.
- Adarsh P:** Madam, but our mortgage book yields of 10.15% is not that much higher given that most mortgages today get originated at 940, 950?
- Sunita Sharma:** This is annualized we are talking about.
- Adarsh P:** That is the first question. The second question was last year we have had a risk weight reduction allowed by the NHB and RBI for mortgages. I would think that given that risk weight reduction we become more capital efficient and our ability to pay out dividends should have been a lot better, so just wanted your views on that because risk weights are lower you can pay out more and still grow 15%, 20% a year, so any thoughts on that?
- Sunita Sharma:** This is a board decision. I cannot take an individual decision on this. This actually is taken by the board, I would not be able to make a comment on that. After we have discussed with the board, I can get back to you and tell you?
- Adarsh P:** But just a suggestion was that, it looks like risk weights have come down over last two to three years.
- Sunita Sharma:** This has come down and I will make a note of it and discuss it with a board whenever the opportunity arises about it.
- Adarsh P:** Thanks.
- Moderator:** Thank you. We will take the next question from the line of Suresh Ganpathi from Macquarie Securities. Please go ahead.



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- Suresh Ganpathi:** Just couple of questions; you are telling that your core individual disbursement growth has been 14%, what has been the runrate last year if I were to look at it just for a comparison perspective?
- Sunita Sharma:** I think it was nearly 10% throughout the year and I think probably in first quarter it was even less than that, it was around 7.73%.
- Suresh Ganpathi:** First quarter of last year. There is of course a disconnect between your disbursement growth as well as your core loan or home loan book, so if I look at it your core home loan book is 9.5%, disbursement growth is 14%, so as it got to do something with prepayment rates or prepayment rates higher, do you think this will normalize, how do you find, explain this disconnect?
- Sunita Sharma:** It was not because of the premium in rate, I mean it is because also with a natural repayments of the people also, EMI repayments also takes place, when the base grows, the EMI also starts getting repaid because that also it happens, so that way it is normal only, I do not think there is anything abnormal about it.
- Suresh Ganpathi:** Have you seen any change?
- Sunita Sharma:** One more thing, which really affects it when the interest is dropped normal repayment always grows.
- Suresh Ganpathi:** Have you seen in general some pickups?
- Sunita Sharma:** Interest portion of the EMI comes down and the principal portion of the EMI goes up, so it looks, because EMI remains the same, interest portion comes down, principal portion goes up and so it looks as it more of principal is being repaid.
- Suresh Ganpathi:** Your project NPL book you said is Rs.323 Crores, what is the total provisioning that you are carrying on this book now after all the provisions that you have made so far?
- Sunita Sharma:** On the project?
- Suresh Ganpathi:** Yes on the project book?
- Sunita Sharma:** Rs.220 Crores.
- Suresh Ganpathi:** So out of Rs.323 Crores, Rs.220 Crores has been provided?
- Sunita Sharma:** Yes.
- Suresh Ganpathi:** Thank you so much madam.



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- Moderator:** Thank you. We take the next question from the line of Deepak Kumar from Narnolia Securities. Please go ahead.
- Deepak Kumar:** Congratulation madam on a very good set of numbers. My first question is regarding on your pure floating rate portfolio, in this quarter it has gone significantly up, what is the reason are you seeing some pressure on your fixed floating rate portfolio?
- Sunita Sharma:** We have got more floating disbursements. We have launched a product, which is pure floating product and we have started focusing on that pure floating product because ultimately in the regime where the interest is going down it is beneficial for the customers also to have a pure floating product and also it is good for the company. It benefits both, so in view of that we have given out, launched a pure floating product that is doing good business and because of that that portfolio has gone up.
- Deepak Kumar:** What is your outlook on your loan growth?
- Sunita Sharma:** Loan growth we have given an outlook of 15% and we have been able to achieve it, we will continue to focus on 15% loan growth.
- Deepak Kumar:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.
- Pankaj Agarwal:** Good morning. Madam even if I exclude this Rs.30 Crores of one time expenses still your Opex growth is closer to around 30%, so that would be the normal run rating growth in Opex throughout the year?
- Sunita Sharma:** We have done a lot of recruitment last year, larger number because year-on-year, we open more offices every year, so employees also have to be, the offices will have to be manned. Two things, one is that we recruit more people, the company is growing, we recruit more people, secondly that we have increased the wages of the employees, both things will definitely, but you are looking a Rs.20 Crores is the arrears, the normal wage also has increased now, so all these put together and last year's base was low because there was no wage increase, there was no arrears and the numbers were less, so because of that it appears it is very high.
- Pankaj Agarwal:** The reason I was asking because your topline, I mean your loan book is growing at around 15%, at one part of time probably will stop seeing that margin expansion, so topline will be closer to around 15% or 20%, but if your Opex is growing at 30% then would not that put some pressure on the bottomline?



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- Sunita Sharma:** It will not happen. It has happened because of the five years wage increase we have given with the five years wage arrears.
- Pankaj Agarwal:** I was saying that even if we exclude that I mean your overall Opex growth is still on the higher side, I mean closer to around 30%.
- Sunita Sharma:** Cost to income is still around 15% to 16%. In a service industry what is the cost basically, cost basically is mostly employees you know.
- Pankaj Agarwal:** Second how much of your portfolio, fixed rate portfolio converted into floating this quarter?
- Sunita Sharma:** Fixed to floating?
- Pankaj Agarwal:** Which got reprised basically?
- Sunita Sharma:** I think Rs.3000 Crores.
- Pankaj Agarwal:** Finally, madam, in terms of this change in product I mean till last quarter, you were focusing more this fixed "Fix-o-Floaty" product, which has worked for you quite well for last four, five years, so why sudden change in strategy in terms of offering more floating rate loan products?
- Sunita Sharma:** There are so many kinds of different people who would like to have a floating rate product also, we have not closed our "Fix-o-Floaty", both products are available, whosoever wants what we are able to give that, but the thing is that we had a floating product before also, but we have now full range of products, we have a full floating, we have two year fixed, we have a three year fixed, we have a five year fixed, we have a 10 year fixed, so different kind of products we have, we have launched it this quarter, so we want that, whatever whosoever customer wants, according to the needs of customer we should be able to give him a choice and he should be able to choose from the basket of products which we have.
- Pankaj Agarwal:** Finally Madam in terms of your proportion of LAP and developer loan, I mean this proportion is closer to the peak or it could go further up from hereon?
- Sunita Sharma:** It is actually, maybe the developer loan may go up a little up, it will be somewhere around 12%, 13% not, it is nearer to our objective, not beyond that.
- Pankaj Agarwal:** Total to combined, LAP and developer combined, right?
- Sunita Sharma:** Yes.
- Pankaj Agarwal:** Thank you Madam.



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- Moderator:** Thank you. The next question is from the line of Saurabh Das from Franklin Templeton. Please go ahead.
- Saurabh Das:** Thanks for taking my questions. My first question pertains to LAP, if you can just tell me the absolute rupees Crores disbursals in the quarter?
- Sunita Sharma:** 11042 Crores.
- Saurabh Das:** I just wanted to also understand share of the LAP business from the top 10 cities what would be that contribution?
- Sunita Sharma:** I think it will be 40% to 45%.
- Saurabh Das:** For LAP as well?
- Sunita Sharma:** For LAP only I am talking about.
- Saurabh Das:** Because your overall book is somewhere around similar number, so is not LAP business or little more urban?
- Sunita Sharma:** I do not think, you are talking about top 10 cities. We have good presence in the smaller cities also to tier 3 cities and other business takes place there too.
- Saurabh Das:** What is the origination split in LAP business between the various channels?
- Sunita Sharma:** I think the same. I do not think there is any different between the two.
- Saurabh Das:** What is that madam? Can you just, how much will be DSA sourcing?
- Sunita Sharma:** Just a minute hold down, I just to look at the data for that. The DSA that is from HLA that is LIC 66% will be there. From DSA 20% will be there and from others will rest of it.
- Saurabh Das:** Okay, you are saying 66% is through your own LIC agents. Also I wanted to understand what is the average and incremental size there right now on LAP?
- Sunita Sharma:** On LAP, it will be around 12 lakhs, both I think average in incremental is the same.
- Saurabh Das:** On the mortgage business, I just wanted to understand that do you offer currently to your existing customers a chance to reset at a lower rate?
- Sunita Sharma:** Yes, we do.
- Saurabh Das:** What is the rate madam?



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- Sunita Sharma:** What rate?
- Saurabh Das:** The rate at which an existing customer gets reset? Is it at your current new generating rate of 9.5 or is it at a 10%?
- Sunita Sharma:** 9.9%.
- Saurabh Das:** 9.9% and what is your new origination rate, is it 9.5%?
- Sunita Sharma:** It is 9.5%.
- Saurabh Das:** So any particular reason why existing customer do not get the current rate?
- Sunita Sharma:** It is not benefit earlier, when the rates are very high at that time they got good raise from the company we will join that rate.
- Saurabh Das:** So, you do not want them to currently get 9.5%?
- Sunita Sharma:** No, they can get 10.5% also, it is not a problem, but I think it is only benefit to them that we are giving that benefit to them 9.9%, from a higher rate we are bringing down to 9.9%.
- Saurabh Das:** What is the charge you impose on the customers for?
- Sunita Sharma:** Nothing actually only Rs.1000.
- Saurabh Das:** Okay and do you see this happening in most of the cases or it is a very selective?
- Sunita Sharma:** We offer it to everybody whosoever wants it and it is not that we are selective. Anybody who wants it we allow that.
- Saurabh Das:** Just as a behavioral pattern of the portfolio is it happening in most of the portfolio?
- Sunita Sharma:** It is happening across the portfolio just happened, but it does not happen, it is not in big number that is how I can say. We do not find very big numbers yet.
- Saurabh Das:** Thanks.
- Moderator:** Thank you. The next question is from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** Thank you so much for the opportunity. I just wanted to confirm two numbers, you mentioned that the wage arrears might recur in quarter two or quarter three, but the quantum would be lesser



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than 20 Crores right and for actuarial valuation change we made 10 Crores provision, is that something which will recur or that was this one of?

Sunita Sharma: That also I think depends on G-Sec rate at that time.

Umang Shah: Madam you mentioned that for full year we are looking at something like 15% loan growth, in the individual home loan segment where we are kind of focusing more now what should we end up growing at the end of the fiscal?

Sunita Sharma: I think we should grow at more than 15%, for loan growth to be 15%, to grow at more than 15% then 17%, 18%.

Umang Shah: That is a something which is a bit of a counter-intuitive that ideally if our individual home loan growth should be at around 17%, 18% for the full year then ideally that should lead to a slightly some kind of a dilution in our margins unless and until we see a similar kind of reduction in our borrowing cost?

Sunita Sharma: It will not happen dilution, because you please that to understand that the kind of portfolio, which we have generated, the benefit did not come last year. The benefit of that will come only this year. Kind of high yield for portfolios, which was generated over the last year, which happened most of it, got generated in the last quarter four. The benefit of that interest earnings on that will come during this quarter. So I do not think there is any chance of reducing the interest income, now this is the best chance, this year is the best chance to increase our core non-home loan growth, because we have backing of good interest income from those non-core business that is LAP business. This is the best chance to do it. If we lose this opportunity, we may not be able to do it next year.

Umang Shah: I understand. So it would be a fair assumption that our core individual home loan growth would be more back-ended which will happen in the second half and probably so 17%, 18% kind of a growth in core individual home loan and overall book growth of around 15%?

Sunita Sharma: I am saying 15%, 16% only, but actually it makes a lot of effort, I am saying 15%, 16% not more than that, because we will make lot of effort it is result in a better growth.

Umang Shah: Thank you so much madam and wish you all the best.

Moderator: Thank you. The next question is from the line of Alok Ramachandran from Future Generali. Please go ahead.

Alok Ramachandran: Thank you for taking my question. One is, I just wanted to more have clarity on most having this question now. GNPA's have actually gone up by means substantially this quarter any idea of particularly to which account?



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Sunita Sharma: From quarter four?

Alok Ramachandran: Yes, from quarter four.

Sunita Sharma: It is always low know. Mr. Ramachandran from quarter four, we always go up in quarter one. There are two, three reasons you want to know the reason I call tell you that. It is a normal trend, seasonal trend. One reason is that lot of activity get generated in quarter four for recovery this one aspect. Second is the people who have not paid for the year would like to pay, because they would like to have interest that income tax benefit for the financial year that is what. In the first quarter, people get lazy, they feel okay they are not trying to get income tax benefit, so they will pay little later. Secondly because the annual exercises in the company first April we will do promotions, transfers, May people will go and join in various places and only June month where we do actual work for recovery and all. Too much of effort in June, because first two months literally gets lost, it is not difficult, so then after first quarter only, people start working towards that to bring it down slowly start coming up. It is nothing new. It is only a seasonal thing.

Alok Ramachandran: Another question is regarding the provisioning, the provisioning has gone up to 160 Crores, any one-offs?

Sunita Sharma: We have explained that 92 Crores is one-off.

Alok Ramachandran: So excluding that it is around 24 Crores or so and incrementally will you provisioning to be at these levels or going ahead?

Sunita Sharma: 92 Crores is one half only, so other provision is 24 Crores is it is just normal.

Alok Ramachandran: How much has been provided for those accounts till date?

Sunita Sharma: 100%.

Alok Ramachandran: They have fully been provided, so no incremental any more incremental kind of provision that might come out of the builder portfolio going ahead?

Sunita Sharma: There could be one not may be this year or next year. There is one more left otherwise all others have provided 100% now.

Alok Ramachandran: How much would be the quantum amount?

Sunita Sharma: That is what I do not remember. It will not be this big. It will be a little less.



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- Alok Ramachandran:** Going ahead how much is the proportion of ability of the company to actually lower its cost of borrowing going ahead, because I guess there has been improvement in the cost of funding as well due to shift from bank funding to NCDs. Now much incrementally can happen this year?
- Sunita Sharma:** Bank funding is supposed if we do not do, there is a lot of headroom for us to do other things. We can do lot of other things, we have the ability to reduce this further.
- Alok Ramachandran:** What is the target that you are looking at for the end of this calendar year?
- Sunita Sharma:** For cost of borrowing?
- Alok Ramachandran:** Yes.
- Sunita Sharma:** It will depend on outside market. I would not be able to say that. Market gives me at a high rate, how will I say that I can give
- Alok Ramachandran:** No incrementally if your plan to issue more debt, what would be the incremental target of proportional liability franchise that you would like to hold in that sense is my question compared to bank which is about 10.8% right now which was last year at around 17%. So your bank borrowing has actually come down, but then even your NCD has gone up. What is the target of NCD as for your borrowing is that you are looking at by the end of this financial year?
- Sunita Sharma:** This financial year I think we should be able to borrow around some 40000 more, around 9000 we have already borrowed during first quarter. We will be probably borrowing 40000 Crores more.
- Alok Ramachandran:** How much would be incremental NCD?
- Sunita Sharma:** Incremental will be around 80% of that.
- Alok Ramachandran:** You expected NCDs to remain at the concentrate for this financial year?
- Sunita Sharma:** Yes Sir.
- Alok Ramachandran:** Not much improvement that you are looking, so bank funding keep to remain head counts at 10.8% at around 9% to 10% as a proportion of your entire borrowing book?
- Sunita Sharma:** 9% to 10% will actually keep bank borrowings, but other things we will try.
- Alok Ramachandran:** That is not much improvement in terms of NIMS from your cost of borrowing?



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Sunita Sharma: We can do that. You can conclude that they are probably not be much change in mix, but you cannot control they will not be much improvement in NIMS. The NIMS are not improving only because of the reduction in cost of borrowings. First of all, I expect that the ways to further go down in the market. So we will get better rates from the market also. NCDs also will be better prices this is one thing. Secondly we can do lots of thing within the NCDs also. We have different kind of tenure NCDs, one of those low tenure NCDs will give us better rate, and high tenure will give different rates. So we keep on doing and mixing and matching so that we are able to get it. There are a lots of opportunities as to reduce rate within NCDs also. We look forward to reducing volume cost further that is our job so we keep on doing and we look forward further and we also look forward to more improvement in NIMS.

Alok Ramachandran: In this builder portfolio you have done a tremendous kind of a growth out here in terms of loan book growth in this quarter, so any guidance for this entire financial year or it would be at around higher double digits in terms of that sense?

Sunita Sharma: I have always been maintaining this that I do not give any number to builder portfolio, because I do not want to give any kind of direction to my people that you have to grow at this level.

Alok Ramachandran: Is there a strategy to increase that book even if there is a lower kind of growth in the individual portfolio, which was seen in this quarter compared to last year?

Sunita Sharma: First finished on then you can say this or else I will add I have always maintained that I do not want to give any numbers for this. Whatever opportunities come to us? Whatever proposals come to us? We look at those proposal, we will place them properly whatever is the best kind of proposal we take that. There are no numbers given to our people. We have only one strategy that we will take only good quality assets. As a builder loans are concerned only one strategy that we will not take any bad asset for numbers. We will only take a good asset whatever may happen. If in the process we get some assets may be growth looks to be good. It is not our attempts to make it good. Our attempt is to only take good assets.

Alok Ramachandran: Thank you Madam.

Moderator: The next question is from the line of Vibha Batra from Fare-Connect. Please go ahead.

Vibha Batra: What is the incremental yield on loan against property and on builder loan?

Sunita Sharma: Loan against property is 11.5% and on builder loans it will be 13% to 14%.

Vibha Batra: You also have individual home loan which gets repriced from 6% to 14%, so what could be the value of such account which should repriced this year and what is currently and when they will get repriced at?



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- Sunita Sharma:** This year we will have something around 15000 Crores portfolio which will be repriced.
- Vibha Batra:** From which state to which state broadly, what would be the?
- Sunita Sharma:** Individual cases will have different rates. We will not be able to say this
- Vibha Batra:** Full basis, if we were to project that how would your yields move. Would it be a positive or negative?
- Sunita Sharma:** I do not think it depend on that and on loan book size of 127000 Crores, and 60000 Crores what happens we do not do it depend on that. It depends on what we are going to generate. What kinds of loan book are we are going to generate and how we can reduce the volume cost. These are the basic two things on which we depend. If we keep on depending only on this, I do not think we will reach to where we have reached today.
- Vibha Batra:** Definitely, but that also 6%, 7% of your book.
- Sunita Sharma:** Whatever we cannot really look at this and work on we do not do that.
- Vibha Batra:** On builders loan where you have provided 100% that exceptional provisional that you have done?
- Sunita Sharma:** It is exceptional provisioning as per the regulator. It is not exceptional.
- Vibha Batra:** So that means it would be a doubtful or a last account.
- Sunita Sharma:** It is not last account Madam. There are three categories, doubtful one, two, three. So every year first time when it becomes an NPA you give 40% provisioning then after two years it gives 60% provision, after that it becomes 100%. Now it has become 100%.
- Vibha Batra:** It becomes three year old.
- Sunita Sharma:** It becomes three-year-old right.
- Vibha Batra:** Despite as you have seen everything that we have, we have not been able to recover this NPA?
- Sunita Sharma:** No madam, it is not so easy, it is a long process. Legal process is going on, everything is going on. Now that we have to go through particular process, we are going through that process, but the only good thing about that is that the assets are very good and we are confident that we will be able to recover it. So whenever we recover it, all this provisioning will be reversed and we will get a lot of benefit.



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- Vibha Batra:** Is it some under construction property or SARFAESI are not applicable?
- Sunita Sharma:** Who said we have done this SARFAESI. It is under our possession.
- Vibha Batra:** Does it have any implication for new underwriting norms I do have?
- Sunita Sharma:** It does not.
- Vibha Batra:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kaitav Shah from SBICAP Securities. Please go ahead.
- Kaitav Shah:** Thank you Madam. I just have one question. I was going to do a source of origination of loans and in that through DSA has come up substantially to 14% during the quarter. So is this like strategy, is it focus area to do more home loans, is it correct way to read?
- Sunita Sharma:** That must be one of compared to the last quarter. I do not think we have strategically reduced. We have only done one thing. We have specifically increased our own distribution of company's share that is what we have done. It has gone up from 4% to 5% that is what we have done. Other things I do not think we have done anything about it.
- Kaitav Shah:** DSA margins, what would they have been, have they been coming off or they have been more or less stable?
- Sunita Sharma:** These are all stable we have done made any changes in that.
- Kaitav Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Roshan Chutke from ICICI Prudential Asset Management. Please go ahead.
- Roshan Chutke:** Thanks for taking my question. Can you give us split of yields of the mortgage from the pure mortgage book how much is it for the pure floating product that you have launched, how much is it for the fixed mortgage that are yet to convert and how much is it for that once you have converted?
- Sunita Sharma:** That is 60% to 70% incremental, 70% was pure floating incremental.
- Roshan Chutke:** How much is the yield?
- Sunita Sharma:** Yield would be around 9.5%.



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- Roshan Chutke:** How much is it for the ones which are yet to convert for the bad book?
- Sunita Sharma:** Bad book it will be I think rates are various, we cannot say one particular rate, so earlier to some other person also was asking me. There are so many rates for that.
- Roshan Chutke:** Overall for the ones to convert, you would have some.
- Sunita Sharma:** It will depend on the date of origination.
- Roshan Chutke:** Approximately if you can give us any ballpark estimation for us to work on?
- Sunita Sharma:** Ballpark will be around 10%.
- Roshan Chutke:** About 10%. I am just trying to understand how you are trying to calculate the 10.15% ballpark if you can give me some assessment of that for the entire mortgage book you said the yield is above 10.15%?
- Sunita Sharma:** We said incremental, annualized incremental.
- Roshan Chutke:** Thank you.
- Moderator:** Thank you. The next question is from the Subramanian Iyer from Morgan Stanley. Please go ahead.
- Subramanian Iyer:** Just one housekeeping question. So your opening LAP book for the quarter was about 11000 Crores and your closing book was about 11850 Crores. If I take the disbursement of 1140000 Crores which you mentioned, I get to repayment only 300 Crores for the quarter it sounds quite low actually?
- Sunita Sharma:** Because this book is young and we will not have much of repayments seasoning will take place, so may be last two years not much of thing will be there.
- Subramanian Iyer:** Because the repayment rate for the previous quarters was more or less inline with your home loan book. So this looks quite abnormally low, so basically your book amortizes by about 4% every quarter on average. This works out to something like 0.3%?
- Sunita Sharma:** I will look into it. I will ask them to do it more. I will look into it. It is a good point. I will just look at why it has happened that is what why should these have not done in other cases also. It is a good point.
- Subramanian Iyer:** Thank you.



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- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** My question is on your margins. We have the strategy now if not growing the LAP book more and we have already seen a very sharp margin improvement over the last two years. So may be this year we see 20-25 basis points increase and after that do you think I mean most of the margin gains are there and then that will be your target levels?
- Sunita Sharma:** I really could not get this, can you just stay it again, please last part I could not get it.
- Saurabh Kumar:** We will probably see some margin increase this year as well because of the whole build up of LAP book last year, but on a go forward FY2017-F2018 basis, what do you say that then you have reached your target margin levels and then from there on the growth will essentially depend on how your loan book grows or do you have any target margin you want to achieve?
- Sunita Sharma:** We have full one year to think about it. We will keep on reviewing what steps need to be done. I feel the liability side improvement will still take place next year, but still we will have time to think about housing pan out during the year and we will set it accordingly. It is very flexible in our strategy formation as far as far as margins are concerned. We cannot be having only one strategy and keep on going about it. We will look at how to pan out in future and accordingly we will decide. For this year at the moment what I see is still we have a very big benefit of the high yielding portfolio we should make use of that and build our home loan book and later on next year will see what needs to be done.
- Saurabh Kumar:** Just on this LAP book Madam, you have essentially guided for the book growth essentially being lower than your overall growth may be so that what are being driven, are you seeing any issues in the market are because your LAP yield, ticket prices are very, very low and it was not be general LAP which was happening in the market? So I mean I am just trying to ask why have suddenly become so cautious on this space?
- Sunita Sharma:** All of you last time, we were so worried about growing LAP book, now you are saying that why you are not growing the LAP book. In the last concall everybody questioned me on this issue only. I assured all of look I am going to now focus on core business that you feel comfortable, I told I was being risky, today you are saying that tell us, I was talking about this is only 12 Lakhs and my portfolio is not risky, but still there were concerns in the investors about it.
- Saurabh Kumar:** Yes madam, investor concerns are you seeing any issues in the market?
- Sunita Sharma:** No, it is only driven by investor concerns. There are no issues as far as the book is concerned noting it all, but I know as I told you earlier also we will keep on changing. I have this year. I can do it, because I have some cushion with me. So I can grow my core home loan book and then see if I need to grow again on core and LAP, I will go next year. We can always keep on changing



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our strategy. We cannot continue to be same every year. We have to see what is profitable for us. What is profitable? What is going to give was good asset quality; how is it going to help in growth with profitability.

Saurabh Kumar: Okay, there is no big risk you see on your business?

Sunita Sharma: No not at all. When I started this I did not have any risk, but still all the investors were so worried I wanted to do demonstrate to investor whenever, we wanted to the could change our strategy and we could deliver on that and this is what we have planned.

Saurabh Kumar: Thank you very much.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: Madam, actually my question is slightly qualitative one, it is a question when you saying your changing your focus from LAP to pure mortgage and you have also launched in new floating rate product, how exactly do you change channel behavior? How do you incentivize your channels to move from one product to another? Does the shift happen quickly or does it take sometime for the channel to ramp up on the new product or slow down on LAP? Can you just give some understanding on that?

Sunita Sharma: It is a basically key is communication. We communicate and we also convey our management focus on that and it is communicated through my HCD team in corporate office and HSD team take it down, also I have directly communicated with my regional managers and then in the month of May we normally have all India area manager's conference, the all the area manager's across country come, around 500 people come and we directly discuss with them, what are going to be our strategy for the year and in that itself, I had conveyed to them that the investors have these kinds of concern, so we will demonstrate to investors that we are capable of doing this also that when we want we can change gears and we can go to core business also and the boys and girl who comes that they understood why, what is happening about the NIMs, what is happening about the profitability of the company, everybody understood and they caught the message further and they only manage the distribution channels and through distribution channels we are able to change the gear.

Abhishek Murarka: Is there any change in the channel incentives also that you give in terms of commissions or brokerages etc.?

Sunita Sharma: No we have not done anything like that.

Abhishek Murarka: So what I understand this LAP essentially you would be giving slightly higher commission than brokerage?



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- Sunita Sharma:** We are giving this slightly incentives.
- Abhishek Murarka:** Your channels would still or at least your DSA or not your own whoever is not your own agent, they would find it still more remunerative to generate LAP as opposed to generating pure home loan. So do you think you will still be able to stem the flow of leads or sourcing of LAP if you do not changes channel commission?
- Sunita Sharma:** Yes it is having also been demonstrated by the Q1 numbers. The second is that these people are actually veterans in core business. All these people are veterans in core business. When you put them in non-core or an LAP we have to teach them how to do it. It looks lucrative to them but we also told them that you are long-term players with the company. You people will have to do what company wants and what is good for the company. For your growth it is important that the company also grows profitability. They do understand. A lot of loyalty in them because of that it gets done.
- Abhishek Murarka:** So you are saying since you communicate a philosophy to them, they will fall in line with that irrespective of the commission structure?
- Sunita Sharma:** Yes, it is not lot easy. It takes a lot of hard work to do it.
- Abhishek Murarka:** Thanks that is it my questions.
- Moderator:** Thank you very much. We will take the next question from the line of Adesh Mehta from Ambit Capital.
- Adesh Mehta:** Thank you for taking my questions. You have mentioned that there was only one project NPL which is yet to be provided for fully given that we have around 330 Crores in NPAs from project loans and only around 220 Crores provided so should we see 100 Crores of incremental provisioning coming over the next one or two years?
- Sunita Sharma:** I do not think so 100 Crores will be, because other are small ones and I do not think any that much. There are not so much delays are there. Only one is there which will be take some more time that is delayed for last three to four years, not others. There are small ones, and they have been very recent, old loans with recent ones. All in transit III. One they have paid or not then again come back to non-NPA, like that there are small ones.
- Adesh Mehta:** Madam, we would be possible to get the quantum of that one account which would come over the next one or two years?
- Sunita Sharma:** I do remember now actually. It will be another 20 odd Crores or 30-odd Crores will be there that is all. I am not very sure about the number, but it will be more than this I see.



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- Adesh Mehta:** Madam, any guidance in terms of the employee cost because we have already seen 9% employee growth this year and you add on escalation of around 13% then we should here employee cost going up around 20% to 25% on Y-O-Y basis would that be of fair way of to work out things?
- Sunita Sharma:** Actually, it will always the lower than NII growth I feel that. It will be on 15% ballpark 15% to 18%.
- Adesh Mehta:** Madam, this salary escalation, which we had, it is not prospective like how to is it work?
- Sunita Sharma:** It is retrospective. Last more than five years no salary revision was done.
- Adesh Mehta:** So the salary for employee should not increase from here on?
- Sunita Sharma:** It will increase after five years now.
- Adesh Mehta:** Thank you Madam. That is it from my side.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was last questions. I would now like to hand the conference over to the management for their closing comments.
- Sunita Sharma:** I think we have had very good questions from all the investors. I must thank all the investors because your queries always guide us how to formulate our strategies and we grow by your expectation and it helps the company to do better and come up to your expectation. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.