"LIC Housing Finance Limited
Q4 FY '24 Earnings Conference Call"
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MODERATOR: **MR. PRAVEEN AGARWAL -- AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to LIC Housing Finance Q4 FY '24 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 an operator by pressing star then zero 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: Yes. Thanks, Steve. Good day, everyone, and welcome to the earnings call of LIC Housing Finance. From the management team, we have Mr. Tribhuwan Adhikari, MD and CEO; and Mr. Sudipto Sil, CFO, to take us through the key highlights of the results post which, we'll open the floor for Q&A. Over to you, sir, for your initial remarks. Thank you.

Tribhuwan Adhikari: Yes. Thank you, Praveen. Good morning, ladies and gentlemen, and welcome all of you to the post earnings conference call of LIC Housing Finance Limited. As you are aware, we declared our Q4 results yesterday.

Before I start the highlights of Q4 results, I would like to outline a few developments in the economy in the last quarter. As expected, the RBI continued with the pause in the policy rates in Q4 also, and expectations of the rate cuts are being pushed further now, largely due to global data cues.

The liquidity conditions in the quarter was also kept at tighter levels to control the inflation. Tighter liquidity conditions along with geopolitical tensions and volatility in the global data points, kept the interest rates at elevated level during the quarter under review. The overall demand scenario for housing loans remained steady.

Further, as informed in the Q1 and Q2 conference calls, the company has undergone through transformational changes during last year, including technological changes as well as opening up of new marketing offices and the introduction of special cluster offices for credit appraisal process and as a result, we witnessed significant improvement in all areas of operations of the company. In FY '23, '24, the year has been the best in terms of margin and profitability with record PAT and NIM.

Now I would like to share the key financial highlights of the quarter, which are as follows: total revenue from operations at -- grew from INR6,415 crores to INR6,936 crores for the corresponding quarter Q-on-Q growth of 8%. Outstanding loan portfolio stood at INR286,844 crores against INR275,047 crores as on 31st March '23, reflecting a growth of 4%. The individual home loan portfolio stood at INR244,205 crores, as against INR228,730 crores as on 31st March of last year, up by 7%. And this individual home loan portfolio comprises 85% of the total portfolio of the company.

Total disbursements for the quarter were INR18,232 crores as against INR16,027 crores in the corresponding quarter last year, a growth of about 14%. Out of these disbursements, in the individual housing loan segment, we disbursed INR14,300 crores as against INR12,406 crores of Q4 of FY '23, up by 15%.

Project loans were at INR1,501 crores compared with INR1,554 crores in Q4 of last year. The last quarter of FY '23, '24 was the best quarter of the year in terms of disbursement with sequential growth as well as Y-o-Y growth.

On the interest income front, NII, net interest income, was INR2,237 crores for the quarter as against INR1,990.30 crores for the corresponding quarter of FY '23, a growth of 12%. Net interest margins for the quarter stood at 3.15% as against 2.93% in the previous quarter -- sorry, in the previous quarter of FY '23. NIM for all the quarters of last year has been consistent and in the range of 3% or above.

PBT, profit before tax, for the quarter stood at INR1,476.18 crores as against INR1,444.78 crores, a marginal growth of 2%. Profit after tax for the quarter stood at INR1,090.82 crores as against INR1,180.28 crores for the same period previously. And PAT, profit after tax, stood at record high for the year, year-on-year. PAT for FY '23, '24 stood at INR4,765.41 crores as against INR2,891.03 crores, showing a significant growth of 65%.

Yesterday, the company declared a dividend of 450%, that is INR9 per share. In terms of asset quality, the Stage 3 EAD exposure at default stood at 3.31% against 4.37% as on 31st March of last year, and 4.26% as at the end of the previous quarter, that means 31 December '23, reflecting sequential as well as Y-o-Y improvement in the same.

Total provisions as of March 31, '24 stood at INR6,270 crores, with Stage 3 provision coverage ratio at 51%. On the recovery front, with continuous and focused efforts, we have witnessed a significant and consistent reduction in delinquency levels during the last year. We have also made a technical write-off INR1,080.57 crores during Q4 of FY '24. And overall, the total technical write-off during the financial year '23 '24 stood at INR2,005.62 crores.

On the funding side, we have witnessed an increase in the overall cost of funds by 13 basis points during last year from 7.63 to 7.76 and an increase of 6 basis points during the last quarter from 7.70 to 7.76. Incremental cost of funds stood at 7.84 for the full year and 7.90 for the quarter. Net interest margins for the year stood at 3.08% against 2.41% last year. During the last quarter, the interest rates were at elevated levels due to tight liquidity controls.

However, we managed to keep our interest expense flat in comparison to Q3. We had also -- we also renegotiated on some of our outstanding borrowings. The last year was a year of consolidation as well as one where several new initiatives were launched and implemented. Also, there was a significant focus on the recovery effort, which have led to improvement in asset quality. With this foundation, I believe we look forward to a strong financial year '25.

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

Moderator: The first question is from the line of Marukh from Nuvama.

Marukh: My first question is on the write-offs, was it on builder loans?

Tribhuwan Adhikari: Mahrukh, ma'am, the write-off is on all loans builder as well as IHL, which are provided for 100%. That means wherever there is a provision of 100%, these loans are eligible for write-off. So it would be a mix of both, not specifically builder loans, it would be a mix of both builder as well as retail IHL, individual home loans.

Marukh: On the repossessed assets are part of Stage 2?

Sudipto Sil: No. Actually, repossessed assets are Stage 3.

Marukh: They are Stage 3. So the Stage 2 provision has also gone up. ECL has also gone up a lot. That's why I asked. Any explanation? I mean, any reason for the Stage 2 ECL being higher Q-o-Q?

Sudipto Sil: No, for the Stage 2, you are asking?

Marukh: Yes, Stage 2.

Sudipto Sil: Yes. Stage 2, the management overlay -- it is because of the management overlay, it has been increased.

Marukh: Okay. And any DTA reversal because the tax rate is also higher?

Sudipto Sil: As far as the tax rate is concerned, it is basically because of some old, I would say, DTL for earlier years, which we have taken effect this year, total amount is INR127 crores approximately.

Marukh: Okay. So it's the earlier years DTL.

Sudipto Sil: Yes.

Marukh: And it will normalize to 19%, 20% going ahead?

Sudipto Sil: Yes. 19% to 20%.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Again, congratulations, I think, I mean, this has been a good quarter for us, except for maybe some one-offs and maybe slightly higher write-offs. Sir, I mean I had 2 questions here. NIM is something that we are kind of trying to wrap our heads around. I mean as a franchise, we were not a business model which big NIMs in excess of 3%. If you could help us understand what is it that has changed in the last 1 year that is allowing us to deliver these kind of NIMs, given that if you look at the sectoral level across HFCs, there seems to be some transient pain, which is there in the margins. Yields have largely maxed out. Cost of borrowing continues to rise. So that is one thing if you can help us understand as well as kind of supplement it with your NIM outlook for the next year. That is one.

And the other thing is sir, I mean, your Stage 3 has kind of declined by almost INR2,500 crores. You just explained in your opening remarks that about INR1,100 crores of technical write-offs that you took during the quarter. So where is the other, I mean, decline that we have seen in Stage 3, Stage 2? There were more organic resolutions during the quarter.

Sudipto Sil: Yes, your second question first, yes, there have been write-offs to that for about INR1,000 crores in the quarter. But despite that, we have been able to also work on the recoveries and which was a focus area for the last 2 to 3 quarters. And we are also, I would say, given that commitment in the previous call, that we will certainly bring down the NPLs in the Stage 3 accounts. And there was a decent visibility because we were working on those accounts for a fairly long period of time. So that has now come through and that has given the movement that you have just referred.

As far as your first question is concerned regarding margins. This is the fifth quarter in a row back to back that we have delivered margins at 3 or around 3. So this is not a one-off. It has been happening for the last 5 quarters, and you would have seen the trajectory ever since we have been able to take the benefit of the higher interest rate regime and passed on the rate hikes.

And to that extent, because of the fact that our liabilities, half of it is fixed and half of it is floating, we have certainly benefited from that kind of a model. In fact, going further, if you look at and compare the interest expense for the Q4 and compare it against Q3, you will find that there is hardly an increase. So we have really worked hard and renegotiated, as we mentioned in the opening remarks.

We have renegotiated on some of the borrowings that we had, and we were able to pull down the interest expense, which has resulted in creating the gap between the interest income and the expense. So that has actually resulted. On top of that, we had a couple of resolutions of some high-ticket cases where we were able to collect the interest due on the NPA accounts as well. So that is all set.

Abhijit Tibrewal: Got it. Sir and just one follow-up question on that. I'm just trying to understand this better. So what you just explained I mean, resolution of high-ticket cases and you were able to collect interest on that, and the same thing that is seen on the liability side, we seem to have benefited and maybe done better than many of our peers. So what we suggested this NIM improvement that we have seen in FY '24 is more structural in nature, is the conclusion that I just wanted to draw.

And sir, the other question that I had was on the asset quality bit. If I kind of just look at our credit cost for the last maybe 3 years, 4 years post COVID, you lean a little bit on the higher side. I mean, must compliment you versus maybe FY '22, '23 levels. You have declined in FY '24. So now, I mean, are we going to see that same trajectory, what you guided earlier, maybe 60 basis points in '24 moving towards more 40, 45 basis points for the next couple of years. And sir, if you can also give that segmental NPA breakup that you've given.

Tribhuwan Adhikari: Yes, I will give you the segmental -- I'll first answer that question regarding the credit cost. Yes, credit costs, certainly now we have reached a stage where the provisioning cover PCR all Stage 3 is, I would say, probably one of the best in the peer segment. And we will like to hold it at around these levels. This is something that we have indicated, I think, 2 quarters back. So that 50% PCR, we have achieved.

As far as the other data points are concerned, you can just note it down. I will quickly read it. You can note it down. Individual home loans, IHL, the Stage 3 is 1.48%. It has come down from

1.71%. Then nonhousing corporate, it is now 30.65%. It has come down from 40.75%. In the nonhousing individual, it is now 5.46%. It has come down from 6.50%. This is I'm talking of the December quarter and the current March quarter. And overall, if you add all the pieces together, it is currently, the Stage 3 is 3.31% and December, it was 4.26%.

Abhijit Tibrewal: This is useful. And sir, I mean, the other question that I asked was on the margin, this looks like sustainable margins now going ahead?

Tribhuwan Adhikari: Yes. As far as the margin is concerned, you asked about the margin, right? Yes, margin, I think we are now in the territories of 2.7% to 2.9% band can be delivered, I would say, that is certainly the outlook comfortably that should come through.

Moderator: The next question is from the line of Varun from Kotak Securities.

Varun: I just wanted to ask a question regarding the expenses. If you look at the expenses, they are up 38% year-on-year and 42% quarter-on-quarter. Is this driven by some wage hike or a pension disbursed or is it just from growth of employees?

Tribhuwan Adhikari: No, Varun, if I talk of Q4, the increase in expenses, which probably led to lower PAT as compared to PBT, there were some one-off expenses which we had to take care of in Q4. Just to explain further, like we had to make provisions for arrears of wage revision. The wage revision of the employees is due now.

So we have to make provision for arrears of wage revision to the tune of INR32 crores. The method of calculation of gratuity also went to change. And because of that, our liabilities increased by INR22 crores. A provision for that had to be made in Q4. Then tax expense, DTL, deferred tax liability, of past years, we had to increase it by INR227 crores. So slightly -- the tax portion is slightly skewed much on the higher side.

And the other part of it, ECL, yes, we also had to make an additional ECL provisioning of INR100 crores to increase our PCR to 50%, slightly higher than 50% as envisaged or as directed by our Board. So these are the one-offs that took place in Q4 as a result of which your operating expenses are slightly seen at a high level.

Varun: My second question is regarding the disbursement growth. So right now, we have done about 15% in 4Q. But is this the sustainable rate that we expect for next year? Or will this go down?

Tribhuwan Adhikari: No, no, I don't think there's any reason. I don't see any reason why it should go down. Yes, in the beginning of the year, we were constrained by these technological changes and the expansion in the organizational structure. But now things have stabilized, and whenever we -- of course, we opened 44 new cluster offices and 50 new area offices, those delivered in the fourth quarter, and I think the fourth quarter was where we should have been right in the beginning of the year. So the 15% growth, which we have shown in the fourth quarter, is what we were expecting all through. And yes, I'm looking for a double-digit growth in this year. There is no reason why -- I don't see any sort of hindrances in the market and the demand, which should hold us back.

Moderator: The next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: So I had 3 questions. The first one was if you can just guide for FY '25 growth, particularly because again you are now going reasonably slow on the project finance side. So in that backdrop, what kind of disbursement or AUM growth, you will see for FY '25? That's number one.

Number two was that, okay, you said on margin improvement that there are structural factors and you have done certain work that is helping you deliver better margin. But you are guiding for 2.7% to 2.9% vis-à-vis current year margin of 3.1%? That's second question.

And third question, on Note 10 to your accounts, that INR122 crores gross loan that was classified as asset held for sale to now again loan at about INR18 crores because as you said that it would have gone in Stage 3, what is the additional provision you have taken on this particular asset?

Tribhuwan Adhikari: Yes. Avinash, coming to the disbursement front, yes, the project loan has shown a degrowth. It is not that we have gone slow or anything of that sort. Yes, the project loans, we have been very -- I would use the word, we have been a little bit guarded and conscious about project loans going by the legacy we have, a large buildup of NPAs in projects related to the loans we gave about 5 years back.

Yes, we are slightly guarded on that, but we're not -- definitely, we're not going slow on project loans. Yes, beginning of the year, as I said, we had some issues, which we have to contend with. But Q4, we are back on track. So as far as disbursement is concerned, definitely a double-digit growth in disbursement. And in the loan book, it's very much on the horizon for FY '25.

Coming to NIM, I'll ask my CFO, Sudipto to takeover NIMs.

Sudipto Sil: Avinash, actually, when we indicated 2.7% to 2.9%, that's a wide band, I understand that, but the delivery will be closer to the higher end of the band, for sure, and it will be done comfortably. We have closed the year with around 3.08% for the full year. There is a possibility that there could be a rate cut or something like that. But overall, we are very confident that, by and large, the steadiness will be there with a slight variation utmost.

Then your other question regarding the movement. That was basically in -- because of the Ind As change, now we have -- earlier, it used to be in the held-for-sale category. Now it will be treated as a part of our overall loan portfolio. So there will be no change in the provisioning because earlier also, the assets were provided for. It will be just a reclassification. Whatever provision was being held for that particular asset category will now get transferred to the general pool. That's all.

Avinash Singh: But I mean you said it is under Stage 3, and you are indicating nearly 15% cover. So that, I got confused.

Sudipto Sil: Yes. So that was because the Ind AS requires the provision to be made depending upon the underlying value of the security, so there will be maybe INR10 crores, INR15 crores deferential will be there. That's all.

Moderator: The next question is from the line of Gaurav Kochar from Mirae Asset.

Gaurav Kochar: A few questions. Firstly, on the provisioning. If I look at Stage 1, Stage 2, Stage 3, this quarter, I observed that we have increased the cover on each of the three buckets. Going forward, as you alluded to earlier that you are satisfied with Stage 3 cover of 50% plus, and we are already there, and incrementally assuming the PD, LGD assumptions do not change materially for the other buckets and you're guiding for 40 basis points credit cost.

Where will that come from is my question? Because if I read correctly, I mean, barring write-offs, the organic Stage 3 reductions, both in FY '23 and FY '24, were quite healthy. You had almost negligible net slippages in each of the 2 years. So going forward, if the net slippage number is going to be broadly similar, where will the 40 basis point provision come from?

Sudipto Sil: So Gaurav, actually the 40 basis points, if you see this year's provisioning trajectory also, so what we do is that whenever an asset moves on to a particular stage in terms of hardening of the bucket, say, for example, within the Stage 3 itself, if there is further hardening, we increase the provisioning there for those particular accounts.

This year also, we have done the same. For example, whenever a Stage 3 account has remained in Stage 3, but it has moved from, say, 2 years to 3 years, so there we have increased the provisioning through a management overlay. Finally, the objective is that once it touches 100% provisioning, it will be written off.

Gaurav Kochar: All right, all right.

Sudipto Sil: Technically, write-offs, again, let me again mention that these are technical write-offs only. All follow-up and recovery action continues as it is.

Gaurav Kochar: Got it. Just 2 questions from this -- 2 follow-up questions. One, of your total INR6,200-odd crores ECL, how much is management overlay? And secondly, how big is this technical written-off pool now as we speak?

Sudipto Sil: Technically write-off pool will be closer to INR4,000 crores now. And the manage overlay, of the INR6,270 crores will be roughly around INR1,700 crores to INR1,800 crores.

Gaurav Kochar: All right. Understood. And sir, with respect to the -- I think in the previous call, you alluded to some transactions in pipeline for your wholesale book in terms of ARC sales or otherwise distressed accounts. So is that something in pipeline for FY '25? And how much broadly rough, maybe a ballpark number that we can expect can come in this year?

Tribhuwan Adhikari: Gaurav, yes, we have taken up ARCs last year. In fact, as a test case, we have put up a large account to the ARC. I think they will be coming back. Some 6, 7 ARCs have shown interest, so they will be coming back to us. We would be likely taking a call in probably, if not this month, in the next month.

So let's see how it goes, how the ARC goes, and then we'll take it forward. Difficult to give a guidance right now because it's not a very clear established practice in the company. We're just testing the waters right now. But definitely, if our experience is good, going by this big account we put up on the block, yes, we would be exploring ARC option also for all the sticky and the hard loans, which we feel are difficult to sort of resolve or settle.

Gaurav Kochar: Got it. And sir, just last question on, again, the loan growth or disbursement growth target. If I look at full year this year because we had an impact in the first half, the disbursement overall was INR58,000-odd crores this year. Next year, if you're targeting a double-digit growth, I'm assuming a 12% number here, if we have to achieve that, the overall disbursement needs to be closer to INR70,000-odd crores for next year. So are we confident of delivering, let's say, FY '25 INR70,000 crores kind of disbursement?

Tribhuwan Adhikari: Yes. Gaurav, no reason. Right now, honestly, if you ask me, there is nothing, as I said, which should hold us back from achieving those numbers you've just quoted. Yes, we are targeting that.

Gaurav Kochar: Great. Great, sir. Congrats on the quarter, and good luck for the coming year.

Tribhuwan Adhikari: Thank you. Thank you, Gaurav.

Moderator: The next question is from the line of Mohit Jain from Tara Capital.

Mohit Jain: Congrats on a good number, sir. I just wanted to understand on the NIM part. If I'm just comparing from December to March, incrementally I'm seeing the cumulative interest yield has gone down and the cost of funds have increased, both in the form of, as on date, the cost of fund as well as incremental cost of fund. So then is the increase in NIM purely because of the recovery from the NPA cases? Or is there something else to it?

Sudipto Sil: No. If you look at it, again, I would like to repeat what I just said in the previous question. Interest costs have not increased, but interest income has increased.

Mohit Jain: But if I am seeing, in interest, the yield or the incremental part of that...

Sudipto Sil: I'll come to that. But if you look at it that way, the interest expenses have been absolutely flat, no increase. Interest income, on the other hand, has shown some increase because of the increase in asset book. whatever little it is, but it has come through. So that has actually expanded the net interest income.

As far as the yields and cost is concerned, that is actually the number which exists on the last day of the quarter. It does not reflect the entire quarter. How you will calculate? If you just take the interest expense and the interest income, which are the audit numbers available along with our financials, and you also have the opening and closing book, that will give you a very good understanding of the trajectory, which has absolutely shown an increase.

Mohit Jain: Okay. And sir, just to reconfirm, you're saying for the next year loan growth also we are expecting the AUM to grow in double digits?

Tribhuwan Adhikari: Yes, yes, Mohit.

Moderator: The next question is from the line of Shubhranshu Mishra from Phillip Capital.

Shubhranshu Mishra: Two questions. The first one is on the various appointments that we have done. So a lot of senior heads have come in from LIC who are in their late 50s, and would be probably sent to Housing Finance business. So my question is that why are we not appointing professional managers in the regional zones or zonal managers to run the Housing Finance business instead of taking it from the parent who are in their late 50s who may or may not have commensurate experience in running a housing finance business? And why are we giving close to INR500 crores dividends when we have so much of bad assets? So if we can conserve on that, we can probably add to our management overlay.

Second is, at a point in time, our gross Stage 3 on the corporate book was 45%, implying that 50% of the book was bad. So why don't we just run it down and we say that, okay, we will only be a home loan or an individual -- catering to individual, then we don't do corporate assets at all?

Tribhuwan Adhikari: Shubhranshu, coming to your first question on the 6 or 7 new people who have come in from the promoters as senior management, this has been a tradition in this company I don't know since when, but since long, I'm sure. When the promoters do nominate their people as senior management personnel, so this is something which the promoters have to decide on, on getting professional people onboard as you are suggesting, so that was question number one.

And your question number two was -- I think question number three, if I remember, I'll ask you on question two later on. Question three was on our corporate loan book, the project finance book, as you said, where 50% of the book is in Stage 3. Let me tell you why are we -- and your question was, why don't we completely drop the book and focus completely on individual housing loans?

Let me tell you, if you look at the corporate loan book right now, approximately INR5,000 crores to INR6,000 crores of portfolio still remains there. And if you look at these bad debts or Stage 3 exposure at default of the corporate loan book, this all pertains to loans given during a particular period, if I may be specific between 2016 and 2019.

So it is not that the corporate loan book or loans given during the last 3, 4, 5 years have been bad. Yes, there was a particular period in our sort of history when we did loans which were not probably -- which they probably went bad. So I would not say that we'd give up on this project loan book because we do see demand coming from this sector, and there are a lot of good builders, slightly riskier, I do agree, but of course, margins also are available. So we are not looking at dropping this entire loan book altogether. Yes, we would be cautious. We would be sort of slow. But definitely, we'd like to do business in this segment also.

And what was the second question, Gaurav, I just missed it.

Shubhranshu Mishra: Sir, why are we giving dividend of roughly INR500 crores to the parent? We can add it to the management overlay and not give a dividend at all, right?

Sudipto Sil: Shubhranshu, what you say technically, I mean, it is the correct observation, but the fact is that we have been a dividend-paying company since the inception, and we would like to continue with it because we have got a decent number of retail shareholders as well, for whom probably this payout is a bit important as compared to many of the institutional investors for whom it may not matter much.

But for the retail investors, and we have got a sizable number of retail investors, for them, it is important. We have increased the dividend payout only marginally from INR425 so -- that is INR8.50 a share to INR9. And that is also after 3 years. Three years, we did not increase, this is the fourth year. And this time, the profits have also been quite good.

And I would like to also add that as compared to last year, the payout ratio has actually come down significantly. Until last year, for the last almost 10, 15 years, the dividend payout ratio used to hover around between 16% to 20%. For FY '24 dividend that we have declared yesterday, the payout ratio is just a little above 10%. It is a little 10.5%.

Shubhranshu Mishra: Understood, sir. I look forward to tremendous growth in FY '25.

Tribhuwan Adhikari: Thank you. Thank you, Shubhranshu.

Moderator: The next question is from the line of Rajiv Pathak from GeeCee Holdings.

Rajiv Pathak: My first question is on the spreads in the margin. So I think Sudipto alluded to the fact that the spreads are at the period end and probably the margins and everything are on an average basis. So if you can have a comparable spread, so the yield and the cost number on an average basis, that would be helpful.

Sudipto Sil: See, actually, if you look at on an average basis, I think the cost number is working out somewhere around 7.3% or 7.4%.

Rajiv Pathak: Okay. So then even the spread would have shown a similar kind of an increase, right?

Sudipto Sil: You are absolutely right. The spread also would have shown a similar trajectory between the period under comparison, which I tried, too, explain in the previous query.

Rajiv Pathak: Okay. Okay. And sir, on this margin, especially, so you would have a good amount of recoveries that have happened in this quarter. And I think you touched upon that you also have the interest recovery that you have done on these accounts. What would be the amount that would be sitting in that NII line?

Sudipto Sil: It will be a little less than INR100 crores.

Rajiv Pathak: Less than INR100 crores.

Sudipto Sil: Yes.

Rajiv Pathak: Okay. And Sudipto if you just...

Sudipto Sil: And that actually, if you look at the comparison between Q3 and Q4, it is more or less same.

Rajiv Pathak: Okay. And Sudipto, if you can share the incremental yield and the incremental cost?

Sudipto Sil: Yes, just a minute. The incremental yield on our, I mean, combined asset book, just a minute -- incremental yield is around 9.9%. And it is 7 point -- sorry, this is the weighted average. That is 9.9%. And the cost is around 7.76%. This is on the...

Rajiv Pathak: This is the outstanding, right?

Sudipto Sil: Yes, outstanding, outstanding.

Rajiv Pathak: And on incremental basis?

Sudipto Sil: On incremental basis, the borrowing cost is 7.84% for the full year. And the incremental yield for the full year put together is something around more than 9.4% or thereabouts.

Rajiv Pathak: Okay. And just one last one point on the recovery. So I think you guys are doing a good recovery this quarter. How much would be that amount? And what would be your target for the next year?

Tribhuwan Adhikari: Difficult -- in this quarter, very difficult to quote a number as such. But definitely, yes, there has been a lot of focus on recovery, and we have done a lot of hard work in the previous financial year, FY '23-'24, which is reflected by the Stage 3 EAD percent of 3.31 down from 4.37 at the end of 31st March of '23. Yes, I'm pretty sure the hard work we put in last year will bear fruits and results in this current financial year. And definitely, you can see the percentage Stage 3 EAD going down even further, but difficult to quote a number as such.

Sudipto Sil: I think trajectory wise, it is now very clear the way we have put in a lot of efforts in FY '24, especially in the second part of the year, and we have given this, I can say, guidance or indication also that we have got very good visibility, and that visibility continues. And as we mentioned, some good big ticket cases, we are moving in terms of ARC, on ground follow-up continues. And then now, we have reached the stage where probably from here it will go down only.

Rajiv Pathak: Yes. So it will be fair to assume a downward sloping NPA number versus the spike that we saw in intermediate quarter last year?

Sudipto Sil: So now I think trajectory wise, it is very clear, it is a downward trending.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Sir, again, kind of coming back to the NIM, just wanted to understand, in addition to those recoveries that we have had from some of the accounts where we've seen resolution, is there also some kind of a product or -- sorry, the customer mix change that you are seeing in your IHL book?

Sudipto Sil: See, actually, if you look at on a year-on-year basis, the incremental yield for the IHL incrementally has increased because we got the benefit of a higher interest rate regime in FY '24 as compared to the full of FY '23. So that has helped.

Abhijit Tibrewal: Got it. And then, sir, just to clarify, I mean all those one-offs that you spoke about, especially on the opex side, employee expenses, they are in the nature of one-offs, right? This essentially means that from next quarter onwards, we will again go back to those INR140 crores, INR150 crores of quarterly run rate in terms of employee expenses?

Sudipto Sil: There were 3 one-offs in the expense line. And if you look at it, there are two which had impacted the employee cost and one which is a non-employee cost. So as far as the employee costs are concerned, there is a wage revision arrears, which is a one-off we've always been providing, but this is slightly more to bridge the gap. So that has already been done, INR32 crores for that. Arrears for gratuity, some little change in the calculation, that is a one-off that is done. These are the two on the employee side. So now if you compare it with the expense on the employee benefits, vis-a-vis Q3, we'll get a clear picture of where the trend line has moved.

Now coming to the nonemployee expense where predominantly it was publicity of around INR15 crores, INR16 crores, and if you look at it last year, FY '24, during the first 6 months, there was a lot of operational issues, and we had gone a little slow on the publicity and the visibility exercise, which has picked up in the third and especially in the fourth quarter. It has also given us good results on the marketing side. So that has been INR15 crores, that is in the Q4 itself. Now if you look at the nonemployee expense on a full year basis, FY '23 compared with FY '24, you'll find the growth is about 9%.

Moderator: The next question is from the line of Aakash Goel from Tara Capital Partners.

Aakash Goel: Just wanted to confirm the disbursement expectation that you were sharing. So were you like sharing a double-digit kind of growth on the FY '24 base? Or I think you alluded to a INR70,000 crores disbursement also being possible. So that would be a double-digit growth on FY '23 base, so just that confusion I had.

Tribhuwan Adhikari: No. See, FY '24, our disbursements were INR53,500 crores, right, approximately. And if you compare it to -- sorry, INR58,000 -- INR58,937 crores, to be precise. So definitely a double-digit from this. And even if you compare it to FY '23, INR64,115 crores, I would say double digit from there also is not, I would say, unconceivable. We have put all the worries behind us, FY -- the Q4 of FY '24 growth around about 15%. Yes, definitely, this gives us the confidence that FY '25, there will be a double-digit growth whether you compare it to FY '23 or '24.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, just first up, the areas from gratuity adjustment, what was the quantum you mentioned?

Tribhuwan Adhikari: INR22 crores.

Deepak Poddar: So INR32 crores is wage revision and INR22 crores is gratuity?

Tribhuwan Adhikari: Gratuity, yes.

Deepak Poddar: But your other expense, if you see, the increase has been much sharper, right, I mean, from a range of INR70 crores to INR115 crores. And publicity expense is about INR15 crores. So increase is about close to INR45 crores, right? So there is some INR30 crores increase also in other expense, which you are saying is not one-off?

Tribhuwan Adhikari: No. See, actually -- Deepak, right?

Deepak Poddar: Yes, that's correct.

Sudipto Sil: Deepak, actually, you have to see it in the full year basis. As I mentioned, publicity is one of a lumpy one. There are other professional expenses, which we did not incur in the first half of the year, which got pushed to the second and third quarters, especially in the fourth quarter. So that is the reason why I said that we have to look at it on a full year basis.

Deepak Poddar: Okay. I got it. So what is the cost to income we are looking at in FY '25?

Sudipto Sil: Cost-to-income ratio has come down, and that's a very good question you have raised. Cost-to-income ratio last year was 15%, FY '24 is around 13%.

Deepak Poddar: Correct. It was around 13.3%.

Sudipto Sil: Correct.

Deepak Poddar: So how do we see that for FY '25?

Sudipto Sil: I think it will be, by and large, steady. It will remain, by and large, steady. Obviously, we will be working towards reducing it, but it will be remaining, by and large, steady.

Deepak Poddar: At 13% to 13.5%?

Sudipto Sil: Yes. Ballpark, that could be the range.

Deepak Poddar: Okay, fair enough. And given -- I mean Y-o-Y, you have mentioned a lower band for NIMs, right, as against 3.2% that we have done this year, we are looking for in a band of maybe 2.7% to 2.9%. So on that backdrop with the steady cost to income, do we expect our ROA to drop in FY '25?

Sudipto Sil: See, first of all, is that we have not delivered 3.2% this year. We have delivered 3.08% on a full year basis.

Deepak Poddar: For this quarter, it was about 3.1%, right?

Sudipto Sil: Yes. For quarter, I mean you should look at it on a full year basis because we are discussing on a full year number basis. Yes, in fact, what I mentioned earlier also in one of the previous queries is that the delivery will be towards the higher end of the bank, and that will be done very comfortably. Obviously, there is a possibility that there could be a rate cut during the current financial year because of RBI action, et cetera. So we're just trying to keep that as some kind of a buffer. But for all practical purposes, it will remain steady.

Deepak Poddar: Even the ROA? ROA, also, we are looking at...

Sudipto Sil: ROA is just a derivation of the profit numbers.

Moderator: The next question is from the line of Sankat from DAM Capital.

Sankat: Sir, just to reconfirm, you said that technically written off pool that we have is around INR4,000 crores and overlay is around INR1,700 crores to INR1,800 crores. Is that correct?

Tribhuwan Adhikari: Yes, yes.

Moderator: The next question is from the line of Mahrukh from Nuvama.

Marukh: So I just wanted to know that suppose the rates are -- whenever the rates are cut, what will be your reset? So say if repo rate is cut today, when will you pass on lower rate to borrowers, after what gap?

Sudipto Sil: Generally, next quarter, billing of next quarter.

Marukh: Okay. Okay. Got it. So if the rates are cut today, you will pass it on in the second quarter?

Sudipto Sil: Yes.

Moderator: The next question is from the line of Vipulkumar Anopchand Shah from Sumangal Investment.

Vipulkumar Shah: So what are the technical write-offs? Can you explain it? I just -- I'm not able to follow you.

Sudipto Sil: See, technical write-offs are write-offs, which is basically an accounting treatment. So it is removed from the books of accounts, but the loan continues to be there in the ledger. And all follow-up recovery, legal, everything, continues. You can say just it's a cleanup.

Vipulkumar Shah: Sir, so my question was, can it happen only after they have provided 100%?

Tribhuwan Adhikari: Yes, yes. Only cases which are -- where 100% provisions have been made can be technically written off.

Vipulkumar Shah: Okay. And one small suggestion, if you can make it as a part of presentation, all segmental NPAs and provisions for those particular subset.

Tribhuwan Adhikari: Vipul, point taken. We'll do that. Next quarter, we'll do that.

Moderator: The next question is from the line of Punit Bahlani from Macquarie Capital.

Punit Bahlani: Just to confirm one thing, the INR1,000 crores is the write-off for this quarter, right?

Tribhuwan Adhikari: Yes.

Punit Bahlani: Okay. And what will be the recoveries?

Tribhuwan Adhikari: The recoveries from the write-offs?

Punit Bahlani: No, recovery as in the entire pool, from GNPA recovery.

Tribhuwan Adhikari: Recovery, actually, almost INR500 crores we have recovered.

Moderator: The next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Congratulations on a strong performance. So I have a few questions. So Sudipto, first, on this incremental cost of fund being 7.9% and the stock cost of fund being 7.76%. Would this understanding be correct that the stock cost of fund may not go to incremental cost of fund because you may, even in the future, renegotiate on the current borrowings?

Sudipto Sil: Yes. Actually, if you look at it, the incremental cost only because of the Q4, especially the March phenomenon where there was a tremendous liquidity pressure and negative liquidity situations. Now the same number in April will be much, much less.

Rajiv Mehta: Okay. Got that. And on this senior management personnel appointments, I think I see you appointed 5 GMs and 4 regional managers. So is it augmentation of the senior management team, operational management? Or is it the replacement of people who have gone? Can you give more color on that?

Tribhuwan Adhikari: No, this is just a replacement, Rajiv. This is just a replacement.

Rajiv Mehta: Understood. And just 2 more things. What is the assessment of recovery from the written-off pool, which is INR4,000-odd crores? So you can sell to ARC for cash, and then you can also recover yourself. But can you just give some ballpark number that out of this INR4,000-odd crores, what can be -- what is the current recoverability assessment?

Sudipto Sil: Well, probably, Rajiv, difficult to sort of give you a number as such because recoveries is always -- these are all sticky loans. Most of the INR4,000-odd crores, especially in the builder book, these are all in litigation, IBC and CLT and all that. And litigation, as you know, is always a slow process. Litigation always leads to further litigation. So difficult to point -- give a number to that. But definitely, I can give you the trend. The trend is very clear that the asset pool is improving. And our EAD exposure, our default, especially Stage 3 is coming down. This will continue. This will definitely continue.

Rajiv Mehta: Got it. And just lastly, how do you define management overlay as INR1,700 crores, INR1,800 crores? Is it just what is over and above the ECL model?

Sudipto Sil: Yes, that is over and above the ECL model. Here, we apply our own judgment to loans, which are in various stages, Stage 1, Stage 2, Stage 3, where we feel that there is some stress buildup or there is some additional risk, so we do make a judgment and provide an additional -- make an additional provision. So that is called management overlay.

Tribhuwan Adhikari: That is basically you can say buffer over a buffer.

Rajiv Mehta: And so what is the view? I mean, how much more buffer we would build because I'm trying to link it to credit cost here...

Tribhuwan Adhikari: Stage 3, I think we have already reached a stage, which is very good in terms of comparison with our peers, probably one of the highest, if not the highest in our peer group. So I think that way, it is absolutely fine. Stage 1, Stage 2, there are no challenges because Stage 1 -- I mean, Stage 1 is standard assets.

And we have -- there also, we have done a decent amount of provision. Stage 2 also, we have done a decent amount of provision there. We don't see much space. I think there is no space further in buffering up. Only what actually happens is that the management overlay comes in when in Stage 3 itself, it moves from, say, a 2-year NPA to a 3-year NPA or from a 3-year NPA moves on to a 5-year NPA bucket.

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

Tribhuwan Adhikari: Well, thank you, friends. In conclusion, I would like to thank you all for your continued support, and I look forward to your support in the future as well. As in FY '24, I believe we did a reasonable job, and the results for the entire year as a whole were good. Yes, many areas of improvement, and we, as a management, as a company, we are focused in all these areas. Looking forward to a fantastic FY '25, and looking forward for your support in the future as well. Thank you.

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