"LIC Housing Finance Limited Q4 FY23 Earnings Conference Call"

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Moderator: Good morning, ladies and gentlemen. Welcome to the LIC Housing Finance Q4 FY23 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 no 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: Thank you, Lizan. Good morning, everyone, and welcome to this Earnings Call of LIC Housing Finance.

We have with us the management team of LIC Housing, backed by Mr. Y Viswanatha Gowd – M.D. and CEO; Mr. Ashwani Ghai -- CEO and Mr. Sudipto Sil -- CFO.

I would request Mr. Vishwanath to share his initial remarks, post which will open the floor for Q&A. Over to you, sir.

Y Viswanatha Gowd: Yes. Good morning. Thank you, Praveen. A very good morning to all of you. I extend a hearty welcome to every one of you to the Post Earnings Conference Call of our LIC Housing Finance Limited.

As you are aware, LIC HFL declared its Q4 FY23 results yesterday. During the year, '22-23, we have seen significant movement in interest rate scenario due to increase in repo rates by RBI. In the April policy, RBI has signaled a pause, post which there have been some improvement in the interest rate scenario.

Now, I would like to share the key financial highlights of the quarter, which are as follows: Total revenue from operations was Rs.6,415 crores as against Rs.5,300 crores for the corresponding. quarter of the previous year with a growth rate of 21%. Outstanding loan portfolio stood at Rs.2,75,047 crores as against Rs.2,51,120 crores as on 31st March '22, reflecting a growth of 10%. The individual home loan portfolio stood at Rs.2,28,730 crores as against Rs.2,04,098 crores as on 31st March '22 and it is up by 12%, it is now comprising 83% of our total loan book. Total disbursements for the quarter were Rs.16,027 crores as against Rs.19,315 crores for Q4 FY22, out of that disbursement in the individual home loan were Rs.12,406 crores as against Rs.16,341 crores for Q4 FY22. Project loans were Rs.1,554 crores as compared to Rs.428 crores in Q4 of last year.

On the net interest income front, the NII was Rs.1,990.30 crores for the quarter as against Rs.1,629.87 crores for Q4 of FY22 and it is showing a growth of 22%.

Net interest margin for the quarter stood at 2.93% as against 2.64 for Q4 of FY22.

Profit before tax (PBT) for the quarter stood at Rs.1,444.78 crores as against Rs.1,314.41 crores, showing a growth of 10%.

Profit after tax for the quarter stood at Rs.1,180.28 crores as against Rs.1,118.64 crores for the same period of previous year, reflecting a growth of 5.5%.

Dividend declared was 425%, that is Rs.8.50 per share.

In terms of asset quality, the Stage-3 exposure at default stood at 4.37% as against Rs.4.64% as on 31st March '22 and Rs.4.75 as on 31st December '22, reflecting a sequential improvement in the same.

Total provisions as on 31.3.23 is Rs.7,230.26 crores with stage-3 provisioning cover of 44%.

During the quarter, we have written off loans to the tune of approximately Rs.350 crores, taking the total write-off to around Rs.540 crores for the full year.

Going forward, the credit cards are also likely to be lower than past year, also, with the continued focus on the recovery, the asset quality has become stable with an improving trend quarter-over-quarter, which has helped us in much better visibility.

On the funding side, we have witnessed an increase in overall cost of funds by 111 basis points during last year against repo rate increase of 250 basis points by RBI during the same period. Incremental cost of funds stood at 7.38% for the full year and 7.84% for the quarter.

Net interest margins for the year stood at 2.41 as against 2.28, both year-on-year and also quarter-over-quarter the improvement in spreads have been registered.

During the most part of the year, the yields remain at elevated levels. However, in the past one month or so, we have witness reduction in the yields across tenors, especially at the longer end of the yield curve. This augurs very well for the company in terms of our total management of liability.

In terms of asset pricing, we have passed on 210 basis points of rate hikes during the year and a further 25 basis points in April '23.

In terms of business operations on a full year basis, there has been a growth. Though asset growth was tempered due to successive hikes in interest rates, impacting trade offtake especially towards the second half of the year, with the greater stability in interest rates, we are confident of very good year ahead.

Further, I would like to bring your attention to a large number of initiatives which have undertaken and proposed to be undertaken for the current year.

We are also expanding our presence in the geographical areas across the country by opening our new offices across all our area offices. Then a specialized team has been formed for appraise of high value cases at corporate office.

The implementation of SAP has been fully completed. We also implemented a new core Loan Management System (LMS) to improve and smoothen the loan management process also.

With all these initiatives, we are certain that the year will be far better than the earlier years. With this brief introduction, I would like to invite you for your queries. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Kunal: This is Kunal from DSP Mutual Fund. So I just have two questions. First was on the retail disbursements, which is your individual housing loans. So, we have seen two consecutive quarters of a sequential decline. So is it just on the account of base effect or are we seeing any real slowdown happening over there? And second question was on the NIM trajectory. So, first thing is obviously like you mentioned that your long-term cost of funding has also come down and you have also passed around 210 basis points of rate increases on your asset side. So what portion of your book has completely seen the impact of this rate reset and how do you see your NIM panning out in the upcoming quarters?

Y Viswanatha Gowd: It's a very good question. As far as the disbursements are concerned, if you look at what happened, the overall portfolio has gone up by more than 10%, I agree. Only thing is in some pockets the disbursements were not to the extent we expected actually or else would have scored better there also. Even then, what happened, of course, what you say also has got some impact because the interest rate hike in some pockets, actually people that wait and watch mode also was continuing. With that, what happened the disbursement across if you see some regions specially one or two pockets, we could not see that much of what you called on traction compared to other regions. Or else what happened, the base effect also, earlier years slightly was there, that also was a reason because last year the rates were nearly almost at 200 basis points less than the current level, especially in the affordable segment, that also would have taken some sort of hit. And with all these things put together, I think, now what happened, more or less the rates are stabilized, now the visibility is very clear that in the days to come that traction even now we are already witnessing a very good improvement in every pocket, even those areas which would not do earlier, now also good traction is there. With that we are very confident of actually very good progress in our disbursements in the individual home loan book.

Sudipto Sil: Regarding the margins, yes, as far as the asset side is concerned, we have effected one more rate hike which is w.e.f. 1st of April 2023. So that is yet to get impacted because all the others were in the previous financial year, in this financial year, we have done 25 basis points which will be coming in Q1.

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

Avinash Singh: First question is like from what you said in Q3 call and taking it from there, so two things have just sort of reversed. So if I look at the phase-3 provision coverage ratio, you had increased it to 50% in Q3 and said that okay, you would like to be there, but again you have lowered it to 44%. And the second, in that quarter also that okay, you are kind of going slow towards the project finance, this was 20%, again in Q4 that has gone up. So what has changed from Q3 to Q4 that made you change this stance on these two things. That's my question number one. And second, if you can just help me with slide 18, where you have disclosed the spread and NIMs. So if I see on the annual basis the spread seems to have improved by almost like 50 basis points, but the NIMs improvement is just 12, 13 basis points. So why is it inconsistent?

Sudipto Sil: Yes, I will start with that query on the provision. See, actually if you look at it during the year, we have written off Rs.540 crores, that in the opening statement we had mentioned. Now, if you add that Rs.540 crores to the existing provisions on book, it will work out to 49-point something percent. So it is not to say that the provision cover has been reduced or something, there were some cases on which 100% provisioning was done, so they have been removed. So there is no change in stance per say, number one.

Y Viswanatha Gowd: As far as the project finance is concerned, you see what happened, we too are selective, in the beginning of the year also we are targeting that year before that is '21-22 we could not do well, of course, there's small uptick was there but last year what happened actually on a selective basis we had done very well both in terms of our construction finance and line of credit items and all. So, there was a good improvement in that book, that also one thing which added to our portfolio and it is very healthy portfolio added to that.

Sudipto Sil: And that is actually probably the numbers appearing inflated because of the base effect. A year before that, there was hardly any disbursement. Even now, after the disbursements of third quarter or fourth quarter, if you see the overall composition to the book is hardly 3% or 4%. Second point is pertaining to the margins. Margins at the beginning of this year in the first quarter call, I think we had very clearly said on a full year basis we will certainly improve. If you see in one of the quarters, that was second quarter, there was an abnormal dip in the margins, which fell down to 1.8. Even at that point in time also, we were very confident and we maintained the outlook on a full year basis we will recover. Now, you kindly compare the second half margins with the second half margins of previous year, then really you will find that there has been significant improvement.

Avinash Singh: No, no, I am more kind of looking that if the numbers on your slide that is spreads and margin, if they are indeed for the full year, then I mean the gap for FY22 is close to 40 basis points as per the NIM and spreads are concerned.

Sudipto Sil: Again, I'm just repeating, second quarter, we had some reversals on the income side, which you will find details in the concall transcript. It is because of those reversals which have happened in the second quarter, it has depressed. That is the reason why I'm saying that if you compare the second half with the second half, then actually you will get to see the real reflection.

Y Viswanatha Gowd: Even earlier, our guidance was more or less 2.4% to 2.5%, that's a full year basis.

Sudipto Sil: Guidance, we had done right from the beginning of the year.

Moderator: The next question is on the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: I have three questions. So firstly, on this margin expansion, just to clarify, there are no one-offs, right, 2.93 we have reported does not have any one-off?

Y Viswanatha Gowd: There are no one-offs.

Gaurav Kochar: From an ongoing basis, let's say taking FY24 full year, the reported margins for FY23 was 2.41 and if I remove the impact of that in second quarter… Sudipto alluded to in the previous question, there was a reversal of Rs.275 crores because of fixed to floating conversion, if I remove that the NIM broadly 2.55 is the full year NIM for FY23. Now going ahead, given that we have exited the quarter at 2.93, the cost of fund if I look at it at 7.63 on the portfolio versus incremental is 7.8. So I mean, there should not be any material increase in cost of funds from here on. On the other hand, the full benefit of yield will come in this year because the yield improvement whatever we took were more back-ended. So taking those cues and given that the margins at 2.9 probably would settle at 2.6, 2.7 on a steady state basis. So for the full year '24 any sort of guidance you would like to give or maybe is it reasonable to expect that 2.6, 2.7 margins for full year FY24?

Sudipto Sil: I think we'll not put a word guidance, but certainly going by the numbers 2.5 at the base certainly looks achievable.

Gaurav Kochar: Sir 2.55 is what you did in the previous year and that year was marred with a lot of challenges on cost of funds. So is it reasonable to expect some improvement from that level?

Y Viswanatha Gowd: Certainly, yes, and we are also positive on the improvement in the margins ahead of 2.5 minimum.

Gaurav Kochar: Given that 2.93 does not have any one-off that you have delivered, I mean some rub off of that will also translate in the next few quarters?

Sudipto Sil: Generally that happens.

Gaurav Kochar: Second question is with respect to the stage-2. So there has been an increase of almost 130 bps in stage-2. Just wanted to understand, is it due to restructured book which is coming out of moratorium and now probably starting to fall in the overdue bucket, is that the reason or there is some other reason?

Y Viswanatha Gowd: Restructured book earlier also was the same only no, there was no change in that one. Now, by end of June everything will be getting over more or less.

Gaurav Kochar: Then why has there been a jump in stage-2 assets; stage-2 asset has gone up to 5.25 from 3.9 in the previous quarter, what is the reason behind that?

Y Viswanatha Gowd: Mostly what actually we too are looking into that. Here and there what we could find is that because of rate increases, EMI also increased across. So, what happened now when this NACH payments are hitting here and there probably what we noticed is that the amounts were not fully adequate enough to get it. That's why instead of stage-1, they've slightly come to stage-2. But now efforts are fully on. Now once again we have looked the system, so now recovery is kept in place. So with that again they moved up to stage-1, that's quite going to happen, I think 10% or even 20% effect will be there on that which are switched over to this. And we're confident that in this quarter this effect will not be there.

Sudipto Sil: Technical impact that has now been addressed.

Gaurav Kochar: So maybe in the June quarter this number will move back to the next quarter number?

Sudipto Sil: If you see steady state basis, this number has never been in this level I mean even during COVID period. So, this is more of a technical glitch.

Gaurav Kochar: So, a large part of this will be pulled back by the next quarter?

Sudipto Sil: Yes, yes, yes, certainly.

Sudipto Sil: They are regular and paying accounts.

Gaurav Kochar: Just to clarify on the credit cost that you earlier participant asked, the stage-3 cover is 44%. So going forward, we should look at stage-3 PCR to be maintained at this 40%, 45% level or this will be inched up to 50% going forward if there are no write offs, would you like to increase it to 50% or this is what you maintain, 40%, 45% PCR on this stage-3?

Sudipto Sil: I think we look at this matter from the credit cost point of view. Credit cost point of view, it is likely to be in the range of around 45, 50 basis points, and it will be probably across all the stages as and when required to create more balance.

Gaurav Kochar: So you maintain 45, 50 basis points credit cost for FY24?

Y Viswanatha Gowd: And moreover, now resolutions for all the cases also, we are seeing something positive. So that probably this year there will be some good number of resolutions also. So that asset quality will improve.

Gaurav Kochar: Saying on the developer side?

Y Viswanatha Gowd: Developer side also actually efforts are on there to what you call to reduce the NPAs. I think at least four, five good resolutions are being worked out.

Y Viswanatha Gowd: Yes, in the pipeline, 400-500 crores in NCLT almost.

Gaurav Kochar: So any number, I mean, quantum of resolutions that you expect in this year broadly?

Y Viswanatha Gowd: This year out of the things I think at least 400-500 crores we are expecting.

Gaurav Kochar: Rs.400 to 500 crores recovery in this year. Last question, on the disbursement side, again, I think one of the participants earlier also asked, the disbursement had slowed down. So do you see any pickup in FY24, any target that would like to give for full year FY24 now that interest rates have been declining?

Y Viswanatha Gowd: Yes, this is only a setback for some parts of our regions, not across India. But what happened, some pockets we could not do very well due to some reasons there. Otherwise for the whole of this current year, that is FY24, we are certain that our growth rates in the individual home loan books should be at least minimum of 12%- 15% going ahead, then overall, we can show a growth rate of 10%-12%, that's what we're looking at, and according to that, targets also worked out and. book growth will be very healthy this year.

Gaurav Kochar: So 10-12% disbursement growth is what you are saying?

Y Viswanatha Gowd: Yes, in the individual home loan book, we are minimum expecting around 12% to 15% range.

Gaurav Kochar: Sorry, this is AU or disbursement, sir, just to clarify?

Y Viswanatha Gowd: Disbursement.

Gaurav Kochar: Disbursement is showing 12% to 15% growth on individual loan book.

Y Viswanatha Gowd: Overall book also already we are going at 10%, at least it should go to 12%.

Gaurav Kochar: On project loan, sir, this quarter we did some disbursals. So this run rate will continue, 3%, 4% of total -?

Y Viswanatha Gowd: Our loan book now, project finance credit is consisting around 3% to 4% only and a slightly small uptick maybe there, not very great growth rate will be there, but anyhow we are also on a very selective basis, we are actually disbursing loans after selecting the good clients and good projects for our construction finance.

Moderator: The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Umang Shah: Two questions that I have. One is, just recalling our commentary in the second quarter conference call where we did indicate that there were some competitive pressures and due to which we had to kind of restrict pass on in terms of transmission of rates, right. If we now look at the current situation, clearly, the competitive intensity doesn't seem to have stopped and visibly the demand appears to be lower, which is reflecting into our disbursement growth as well. In this scenario, what gives us the confidence that we would be able to hold on to our yields or margins and there will be no pressure on us to kind of further probably lower our yields or probably lower our growth aspirations?

Y Viswanatha Gowd: As far as the disbursement is concerned, of course, one thing is this year also overall growth in the book is around 10% across and then in the individual home loan also 12% is there. We are very confident that as far as disbursements are concerned, mainly individual home loan book, because now the rates are almost stabilized. Everywhere, we also now implemented new systems. To improve our TAT, actually we have implemented a very good system of supporting even grassroot level people and we also have now implemented SAP, and also we have implemented very good software also where as I told you earlier, our loan management system is now being improved with the new software. With all these things actually even we are also increasing our penetration outreach by opening new offices also across all the geographies. So these things will give us a cushion, that growth rate what we're expecting, minimum has to come from there only and it will come also. So with all these things in place, we are very sure that as far as the book size is concerned, will grow at a very healthy rate of around 12% to 15% as I told you already. Then asset quality wise, if you look at what happened, now because of good efforts made so far apart from individual home loan, even other loans also we are able to show good progress and very good resolutions are in place, with that I think in the next two, three quarters at least we can witness a very good improvement in asset quality also. So, with these things we are very sure that all of our promises like our NIMs as well as the margins we will certainly maintain.

Sudipto Sil: If I can just add, just one more thing is that if you look at the prepayment rates that has actually come down, so that is indicative of a different competitive intensity as what it was seen in the last maybe two years or so.

Umang Shah: My second question is again pertaining to margins, right, not looking at the current quarter margins, but if I look at last five years, margins typically have been in a band and although while we appreciate that on a full year basis, we have delivered the margins that we were looking at, the margin volatility on a quarterly basis in last two years, particularly has increased significantly. So just wanted to understand that fundamentally, has there been any change into our business which is leading to this sort of a quarterly margin volatility because in the past also we have remained in the band of about 230, 240 basis points of margins, but the quarterly volatility wasn't so high?

Sudipto Sil: As far as the quarterly volatility is concerned, if you see the exit margins of any financial year, has always been on the highest among the four quarters. So that I would attribute it to be a usual phenomenon which has been there for several years. So that is, one thing. Second thing, if you look at it on a full year basis, there has been stability and barring '21-22, it has been more or less increasing by a few basis points. In '22-23, we had indicated that it will be on a full year basis much better than what we had seen in the whole of '21-22 and it has come out that way. So going forward you will see stability in the margins and we have indicated also the band in which it is likely to be there, so stability will certainly be there.

Y Viswanatha Gowd: And one more thing, earlier one or two quarters, there was delay in transmission of the rate hikes, that probably also would have affected that margins only. But going forward now, I think the visibility is very clear. I think such older margins will not be there at all, we are very much confident of that.

Umang Shah: At what frequency do we kind of relook or revise our PD, LGD assumptions given the fact that across buckets are our provision coverage week stage-1, 2 or 3 has been again a bit too volatile and again, I'm not looking at the fourth quarter numbers, I'm looking at probably a much longer frame maybe about two to three years. So just wanted to understand at what frequency do we change our assumptions?

Sudipto Sil: It is actually a dynamic model. On a rolling basis, every quarter when we sit down to draw the numbers it is on the past 120 months, months, that is 10 years.

Y Viswanatha Gowd: The historical, our own performance -

Subipto Sil: So for example, when we sit for say, March, then it will be the previous 120 months, when we sit for June, it will be the previous 120 months from June backwards, just like that. So it's on a rolling basis. So you can say in effect it gets reviewed every quarter.

Umang Shah: But something like a stage-1 standard asset provision, typically in that line also we have seen a bit of a volatility, right?

Sudipto Sil: That is precisely what I'm saying now. Earlier, it was completely I would say a very objective model, now, management overlays are also there which ensures this you will get to see from this quarter onwards… you have already started seeing that from stage-1 etc., also we have created sufficient buffer to ensure that there is no such volatility even if one particular account moves from one bucket to another.

Moderator: The next question is from the line of Harshvardhan from Mandhan AMC. Please go ahead.

Harshvardhan: Just a couple of questions. Wanted to understand the CET-1 issue as of March '23.

Sudipto Sil: Sorry, could you repeat your question?

Harshvardhan: I wanted to understand the CET-1 ratio for the financial year.

Sudipto Sil: Yesterday only numbers have come. So we'll have to first report it to the regulator. But it is right now expected to be in the range of around 16% to 17% and the total capital adequacy will be 18%-plus.

Harshvardhan: What will be NHB allocation for the '22-23 year, the total disbursements movement that we got on NHB?

Sudipto Sil: Last financial year around say 5,000 crores we have taken from NHB.

Harshvardhan: And we expect the smaller amount to come this year also?

Sudipto Sil: Slightly more possibly.

Harshvardhan: One last question on our incremental cost of funds. You have mentioned that in Q4 we raised somewhere at around 7.8. What would be the rate in Q1 or is it around that number or it has further inched up?

Sudipto Sil: Current '23-24 it has come down by around 25 basis points.

Harshvardhan: Our incremental cost has come down?

Sudipto Sil: Yes, around 20 basis points, you can say.

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

Abhijit Tibrewal: Obviously, you kind of continue to surprise us and the good thing is that this time around there is a pleasant surprise on margins and credit of the security. And while we have largely answered all the questions, just wanted to understand that when we said there are no one-offs in the margins of 2.93% that we reported. Sir, just wanted to understand given that we follow a quarterly reset on the first day of every quarter, how is it that what we compute using the interest income number that you report are expanded by close to 60 basis points on QoQ basis, that's the kind of question I wanted to understand. And the other thing is when we look at your disbursements in this quarter, maybe you are the first corporate, even last quarter to acknowledge that there is some sentimental moderation that we are seeing on the demand front particularly in the higher ticket size segment. So this would have chosen to deliver a slightly higher growth rather than deliver such high margins. So what is your thought there? And secondly, sir, we have kind of acknowledged that going forward developer finance will start maybe increasing a little bit from here. Just wanted to understand for a product segment where we last reported 45% kind of NPAs, what is the rationale of again growing that book?

Y Viswanatha Gowd: As far as the project finance is concerned, of course, as I told you earlier also, on a very selective basis we are giving in some pockets where our own known customers who are having very good experience with us, number one, and that book also we have to look into that because as you know that books offer some sort of better margin for us, that is there, Then your second question is about the disbursements and all. I agree. I told same thing, at that time demand also is very good, you could see that the substantial increase in the demand also, improvement in sentiments and all. Actually the performance across India if you measure, one or two regions could not do very well. That's why the numbers are not that much comparable or we could not do very well overall or else in other pockets we have shown excellent growth, the demand is fully met. That's why we're very confident that in the days to come, even this current year, the disbursement certainly will be as I promised you that in the individual home loan book at least should be in the range of 12% to 15%.

Sudipto Sil: You had a query on NIMs, Abhijit. Can you kindly repeat?

Abhijit Tibrewal: What I wanted to understand is, you have acknowledged that there are no one-offs in the margin -

Sudipto Sil: I remember. Actually it is very simple. You can actually add back you know if you look at the fact that we have increased by 35 basis points which is effective from 1st of January itself on the entire book of almost 2,70,000 or 2,60,000 crores plus the incremental disbursement which we had done. You remember that we have also increased on our incremental pricing from January. That also if you see the incremental net, I would say, addition to the assets, I think you will be able to come very close to the figure of the current quarter's interest income. There are certain lags also, certain portfolios because of NPAs, etc., could have not been impacted in the previous quarter, they have come in this quarter, there has been improvement in the NPAs also. So that way you can I think very easily reconcile, there is no one-offs in the current quarter as far as the interest income is concerned.

Y Viswanatha Gowd: And one more input on your disbursement point, of course, as I mentioned earlier also, partly the base effect also was there because the year '21-22 if you compare to that. Then secondly of course rate hike, that also is partly attributable in some pockets of our geographical locations. Then in the project finance or construction finance, if you ask me, nowadays we are focusing on even some LRDs and again some sort of line of credits, there, the margins were able to pick up.

Sudipto Sil: There the risk is much less as compared to a core construction finance.

Abhijit Tibrewal: Maybe one last data keeping question. If you have already shared in the presentation, I can look it up. But you used to share your stage-3 numbers for IHL, NSC, NHI and project loans.

Sudipto Sil: As far as the stage-3 numbers for IHL, it is 1.6%, then for NHI that is 6.6%, NHC is 22% and project is 40%. And I would just like to add here that in each of these four categories, it is reduction from the December numbers.

Abhijit Tibrewal: Which means that at least in the stage-3, there have been some resolutions or upgrades that you've seen?

Sudipto Sil: Yes, stage-3 across we have collected more than Rs.500 crores in the NPA accounts itself, which includes both the principal and interest.

Y Viswanatha Gowd: Good resolutions were there actually.

Abhijit Tibrewal: Sir, this Rs.540 crores in FY23, what was the write-off number in Q4.

Sudipto Sil: Q4 number was Rs.352 crores approximately, plus the one that we have done in I think in Q2 was Rs.191 crores, so put together is Rs.540 crores.

Moderator: The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: First, in terms of the proportion of the customers wherein there would have been the EMI increase versus the tenor increase. If you can just highlight that maybe with the pass on in the rates, so that would be helpful?

Sudipto Sil: So total about say number wise it will be around 12,000 customers.

Y Viswanatha Gowd: 1%.

Sudipto Sil:: Which is about per customer number wise it is less than 1% of the total outstanding number of live loans; live loans is around 15 lakhs, so it is less than 1%, wherein there would have been the increase in EMI?

Sudipto Sil: Yes, yes. 13,000 is the number to be more precise.

Kunal Shah: In absolute term if we have to look at it in terms of the exposure?

Sudipto Sil: Exposure wise, it will be closer to around say 2,000-3,000 crores. Average ticket size will be around Rs.30 lakhs

Kunal Shah: No, because the way you highlighted in terms of this increase in stage-2, maybe a part of it is because of this -?

Sudipto Sil: It is exactly what we said in our opening remarks also. If you actually see this, so it is not that these accounts are not paying, but the full EMI has not been recovered because of some technical matters. Now we have addressed the issue. So now onwards this will not be recurring.

Kunal Shah: Because that delta was almost like 1.3%, 1.4% so -

Sudipto Sil: So which actually is that 1.1% in terms of the number of accounts also as a percentage of our total live loans?

Kunal Shah: Secondly, maybe with respect to the growth, you mentioned in terms of the prepayment rates actually coming off, but maybe because of the competitive intensity, is it that also which is leading to relatively lower disbursement growth, particularly in 4Q, otherwise seasonally 4Q is quite strong for us. So was it nearly on account of rate compared to the competitors or how is it?

Sudipto Sil: No, it is not rate per se. Actually, if you look at it, interest rates have been going up in the system for the last three quarters, right from the month of June onwards up to February. And every time there's been an increase in this. So what actually happens is that if the interest rate of the home loans or any finance product increases very sharply within a very small space of time, then it is sometimes pushing the customers into a deferment mode, it is not that the person has cancelled the decision to purchase, it is just a deferment, maybe for one quarter, maybe for two quarters. But actually if you see now the interest rate trajectory looks like it has peaked and we have already seen that impact on the bond yields which has come down by 30, 40 basis points at least. So, taking that cue, it is likely that going forward interest rate stability will be there and the customers have already shown indications that they've come back to the market. The other thing is that on the real estate side, you have seen price points moving up, which is also a positive factor, which actually gives you an indication that demand is picking up.

Kunal Shah: Absolutely. But still in terms of the market share, it seems to be a loss. So maybe -

Sudipto Sil: No, it is not a loss because if you see up to the third quarter, we were clocking home loan growth of around 15%. And if you actually see the data in terms of housing finance sector growth, still I think November or December it was not growing more than 15%, it was more or less in that range.

Kunal Shah: No, particular for this4Q?

Sudipto Sil: I don't think one quarter gives any indication of any market share loss.

Y Viswanatha Gowd: And not across, even some regions have done even far, far better; some regions growth rates are more than 30%.

Sudipto Sil: On a quarterly base of say Rs.15,000 crores, even Rs.1,000 crores extra business would have translated to a much, much higher number in terms of real numbers. So if you look at it per se, then it is not that there has been any drastic reduction or drastic decline in the disbursement.

Y Viswanatha Gowd: Moreover, to address it, even more significantly, we have also expanded our reach, as I told you that our new expansion of the branches across all the regions, that also will give us more footprints across, so that we will show good growth in all regions this year.

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

Nischint Chawathe: Can you sort of highlight which segments have seen maximum write-off this year?

Sudipto Sil: Write-offs, there are three categories of assets as you know, IHL, the individual home loans and there the write-off has been around Rs.200 crores, in the non-housing corporate which includes the project loans, there the write-off has been little more than Rs.300 crores and in non-housing individual the write-off has been around Rs.30 crores, totaling around Rs.540 crores.

Nischint Chawathe: You mentioned that your incremental cost of borrowing is 7.84, which is probably coming down maybe 20 basis points or so in this quarter. What would be the incremental lending rate?

Sudipto Sil: Incremental lending rate, the lowest rate is 8.6% today for the highest rated CIBIL score.

Nischint Chawathe: I mean, 8.6% is floating, right, so the IRR could be a little higher?

Sudipto Sil: Yes, IRR will be higher, plus it is at the premium segment in terms of CIBIL score.

Nischint Chawathe: You have raised 25 basis points across the board, is it or I mean even for new customers from this quarter or -?

Sudipto Sil: No, no, not for new customers, it is on the PLR from 1st April.

Nischint Chawathe: So basically I think probably 8.6 is what you're saying is the incremental lending rate?

Sudipto Sil: 8.6 is not the IRR.

Nischint Chawathe: 8.8 or something like that and as against that you probably have incremental -?

Sudipto Sil: That is, for the best customer and only for the individual home loans.

Nischint Chawathe: Incremental rate on the entire block of disbursements on the individual side would be how much?

Sudipto Sil: All types of credits put together?

Nischint Chawathe: The best customer gets 8.6 -

Sudipto Sil: It goes up to 9.1, so 9.1 means that if you annualize it, it will be around 9.3.

Nischint Chawathe: 9.3 versus your incremental cost of around 7.6 or so?

Sudipto Sil: Yes, that is only on the individual.

Nischint Chawathe: Which means a healthy spread, right, I'm just trying to say that probably you are kind of maybe building in some sort of a decline in the compression again?

Sudipto Sil: It is not that way. If you see last year also we were very clear that there will be an improvement on a year-on-year basis, this year also we have indicated there will be an improvement on a year-on-year basis and obviously the numbers are whatever you have seen in terms of cost of funds and lending rates.

Moderator: The next question is from the line of Bhavik Dave from Nippon India Mutual fund. Please go ahead.

Bhavik Dave: One question is over the last one, one and a half year, we've been seeing increasing dependence on banks versus increase that we used to have. I just want to understand why that happened, because the cost of funding for banks is reasonably higher versus including limited going out of the market, triple entity like should benefit from the NCD market and that's the understanding we have. Just want to understand, can this mix shift back in terms of increasing NCD versus bank, the way it happened over the last one, one and a half years, can that reverse in FY24, is that a fair assumption?

Sudipto Sil: We are not able to hear you clearly, but I just got the understanding of what you are trying to querying. See, this is part of an overall diversification plan. Some five years back, there was a huge dependence on the wholesale debt market to the extent of 80%, number one. Number 2 is, if you see the asset profile, 90% of the assets are in the floating rate side and our funding was almost 80% on the fixed side. So, in a declining interest rate scenario, our spreads were getting severely compressed. So one of the reasons why we wanted to diversify was to reduce the dependence on any market segment, so now it is well diversified, we are not dependent on any market segment. Number two, it is a natural hedge that we are building into the balance sheet. We have got 90% plus of assets on the floating side. Now, we have got a decent amount of liabilities also in the floating side which will come to our help significantly when the rate cycle reverses and we are sure that the rate cycle will reverse maybe in the next six months, maybe in the next 12 months, maybe in the next 18 months. So it is part of a well thought out strategy. It is nothing to do per se only with the cost of funds. If you've seen many of the operations, the banks were offering significantly lower because of the liquidity that they were holding with them and they were not able to lend to other segments. So this keeps on shifting, but it is a well-thought out strategy and it is designed to insulate the balance sheet from two large risks. One is a concentration risk in terms of sourcing of funds from any one particular source and the second one is to diversify and mitigate against the interest rate risk.

Bhavik Dave: And the bank funding will be at one year entry level, majority of it?

Sudipto Sil: No, no, no, no. It is a combination of link to repo rate. It is a combination of external benchmark like T-bills as well as MCLR where we are generally marking with the three month MCLR. There also we have interest hedged. So any one of the benchmark moves, we will get a benefit.

Moderator: The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: So, my first question is how much of your loan book is still under moratorium which is the restructuring 2.0 moratorium?

Y Viswanatha Gowd: Now, I think it is around Rs.748 crores.

Sudipto Sil: Rs.748 crores is yet to come out of moratorium now, all others have come out.

Piran Engineer: And we had restructured I think around Rs.7,200 crores or so. If you can just break up now Rs.748 crores is still in moratorium, so the remaining say, Rs.6,500 crores, how much of that would have moved to stage-1, how much to stage-2 and how much to stage-3, just the bifurcation of whatever has come out of restructuring.

Sudipto Sil: I got your point. Out of around Rs.7,000-odd crores which have been implemented, about Rs.1,000 crores account have been closed… fully repaid and closed, Rs.968 or Rs.1,000 crores, Rs.748 crores is yet to come out of the moratorium and out of them the NPA is around Rs.1,500 crores.

Piran Engineer: And stage-2, sir?

Sudipto Sil: Everything else, irrespective of the fact whether they are stage-1 or stage-2, we have kept all of them in stage-2 as a part of prudence and we have provided for also then.

Piran Engineer: Oh, almost Rs.4,000 crores roughly will be in. stage-2 out of that?

Sudipto Sil: Yes, irrespective of the fact that some of them are actually fully regular. But still we have as a matter of caution placed them in stage-2 so that we are able to provide higher provisioning rate.

Piran Engineer: And what is the rule from either your own board or RBI that if they pay, let's say for 12 months regularly or 24 months regularly, they get upgraded or they never get upgraded throughout their life?

Sudipto Sil: No, no, no, this will certainly get upgraded. Obviously, if the loan gets closed, the provision gets released, so it is obvious interpretation. Secondly, if it is there for one year, standard, then also it comes out of this provisioning requirement… waiting period of one year from the point it actually comes out of the moratorium,.

Piran Engineer: Second question is our project is for Rs.1,500 crores. How much of that would be to existing projects that we already have lent to the lender and how much of brand new project?

Sudipto Sil: I will not say brand new project per se because in that Rs.1,500 crores we have also lent to our line of credit also. So that line of credit is not project finance per se. And balance mostly is to existing customers, maybe -

Y Viswanatha Gowd: Customers will be around 60% more or less.

Sudipto Sil: 60% of the balance. So maybe fresh customers maybe hardly 100 or 200 crores.

Piran Engineer: Line of credit would be how much out of the Rs.1,500 crores?

Sudipto Sil: Line of credit is around Rs.700 odd crores.

Piran Engineer: And this is to the corporate, not to the project, correct?

Sudipto Sil: Line of credit is to housing finance companies, HFC for onward lending.

Piran Engineer: What is your LCR today?

Sudipto Sil: LCR, average for the quarter of March 140-plus.

Moderator: The next question is from the line of Renish from ICICI. Please go ahead.

Renish: So in your opening remarks, you did mention about some of the pockets not seeing the good disbursement demand. So if you can just give some more color on which geography, which pockets are things right in terms of the credit offtake?

Y Viswanatha Gowd: Mostly happens is, if you look at actually traction was good across regions like South, then again to some extent Central and proper here. Then again, only thing is we could not see much traction mainly in North and to some extent in East also.

Renish: So any specific states or districts or I mean -?

Y Viswanatha Gowd: Metros are doing well, but tier 2 cities, there we could not get good traction because mostly we operate in the salary structured now in the sense our 80% of business comes from the salary segment. So because of this rate increase and all, we have taken a small hit there.

Renish: If I go by the presentation wherein 60% comes from metro and 40% comes from the non-metro, so basically you're saying the non-metro is not in the level, but maybe some pockets are seeing lower kind of thing?

Management: Small hit, not a very big dent, it's very minor.

Renish: Sir, just again on the NIM side, so our exit got a NIM at 2..93 and the kind of commentary or the highlights we have given in terms of the incremental cost of borrowing in the lending yields, first half '24 you expect NIM to sustain at this level of 2.9 or how one should look at first half perspective

Sudipto Sil: No, cannot be compared with an exit NIM of any year, that is something we have discussed a just few minutes back, exit NIM are always on the higher side, but on a full year basis, it will be better than full year of last year and if you look at it even on a first half basis also, the first half will be better than first half of last year.

Renish: Right, but practically your exit NIM should have captured all the rate hikes on both asset, liability. So I was just wondering why that should not extrapolate to first half '24.

Sudipto Sil: Part of it gets rest of a little, but if you look at it, in some pockets of business it may not have got fully translated, so that might come with a lag, there is always a lagged impact in both the sides… increase or decrease and there is a possibility that towards the end of the financial year one could also see a rate decline in terms of rate cut from the RBI, but that will happen only towards the end of the year.

Renish: So ideally one should go by 2.55 base NIM what?

Sudipto Sil: That will be base.

Moderator: The next question is from the line of Sanket Chheda from DAM Capital. Please go ahead.

Sanket Chheda: So my question was again the increase in the stage-2 for this quarter where we said that there was a technical thing wherein NACH got bounced. So there my question is that once it bounces for such technical reason, maybe it appears in bounce rates or maybe one plus DPD but usually gets resolved in certain 15 days. For it to appear in stage-2, it has crossed 30-plus DPD. So is there any action which was not taken in 30 days and you follow up only after that or how to do read that?

Sudipto Sil: No, it is not that no action has been taken, but we have been able to address it to a significant extent, these are very technical matters, takes time, but it is now more or less I would say in Q1 you will not see this happening, that has now been fully addressed.

Y Viswanatha Gowd: And moreover due dates will be spread across entirely.

Sudipto Sil: Due dates might be spread across –

Y Viswanatha Gowd: Entire month, not in one day.

Sanket Chheda: On ECL provisioning, we said that we have created buffers, but on stage-1e we have just reached about 26,27 basis. Is that a regulatory requirement or do you think it's a buffer on stage-2 and stage-1?

Sudipto Sil: No, I'm not able to understand. If you kindly explain your query?

Sanket Chheda: There has been reclassification in from say stage-3 provisions to stage-2 and stage-1 this quarter, we saw a quite sharp jump in stage-one provisions also. So from say 5 bps to say 26, 27 bps, so wasn't that necessary rather than say -?

Sudipto Sil: There is no regulatory intervention as far as the IND AS is concerned. IND AS is model driven output, but this was something we had voluntarily done because we felt that the stage-1 provisioning is very less at around 4 basis points, up to 3 basis points. So from there we have increased it. It is ensure that there is a buffer.

Sanket Chheda: Isn't that a provision in, say, for the upper layer NBFCs?

Sudipto Sil: There is nothing of that sort for IND AS. In IND As, there is no regulatory mandate. IND AS means it's a model which is based upon PD and LGD which is the ECL, that is expected credit loss.

Sanket Chheda: I'm not talking about IND AS sir, I'm talking about the scale-based regulations which are there.

Sudipto Sil: There is nothing like that.

Sanket Chheda: So we maintain that it's a buffer that -

Sudipto Sil: Yes, certainly.

Moderator: Ladies and gentlemen, we'll be taking the last question that is from the line of Bhaskar Basu from Jefferies. Please go ahead.

Bhaskar Basu: I just had one clarification around the restructured book. So, I think the restructured book under moratorium was about 1,400 crores last quarter and about 740 is now. Was the entire 1,400 crores already sitting in stage-2 or the part of the book which has come out of moratorium now moves to stage-2, is the movement in stage-2 anything to do with the movement in restructured book?

Sudipto Sil: No, they are already in stage-2.

Bhaskar Basu: The entire book was already in stage-2?

Sudipto Sil: We have clarified, last quarter before that we had moved all these OTR accounts to stage-2.

Bhaskar Basu: Secondly, just hopping back on the yield question, basically when we look at the portfolio spreads exit, there has been a 33 bps of increase on a sequential basis versus say the calculated increase of about 60 bps. Was there any additional income recognition because of recoveries or some accounts getting resolved, etc., in this quarter?

Sudipto Sil: There was no one-offs.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

Y Viswanatha Gowd: I thank everyone of you for participating in this analyst call and wish you all the best. Very promising and also very performing in the year ahead '23-24. Thank you once again.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Axis Capital Limited that includes this conference call. We thank you for joining us and you may now disconnect your lines.