"LIC Housing Finance Limited
Q2 FY '24 Investors Conference Call"
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MODERATOR: **MR. PRAVEEN AGARWAL – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the LIC Housing Finance Q2 FY '24 Investors 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 touch-tone 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, Zico. Good afternoon, everyone, and welcome to the earnings call. We have with us Mr. Tribhuwan Adhikari, MD and CEO; and Mr. Sudipto Sil, CFO, from the management team. I would request MD and CEO to give us a brief on the results. Post that, we'll open the floor for Q&A. Over to you, sir.

Tribhuwan Adhikari: Thank you, Praveen. Very good afternoon. Good afternoon, and welcome to the post earnings conference call of LIC Housing Finance Limited. As you are aware, LICHFL declared its Q2 FY '24 results yesterday. Before I start the highlights of the Q2 results, I just like to outline a few developments in the economy over the quarter.

RBI kept the policy rates unchanged in its August and October meetings. However, temporary incremental CRR was introduced in August, MPC meeting to tighten the liquidity in order to bring down inflation. The inflation numbers during the quarter were slightly higher above the RBI's targeted range.

In the October MPC meeting, the RBI Governor hinted that RBI could opt for OMO sales auction of G-Sec to mop up excess liquidity. Due to the high inflationary pressures and tight liquidity, the interest rate remains elevated at elevated levels in the quarter with almost a flat curve.

Now I would like to share the key highlights of the results of the quarter. The total revenue from operations of the company were INR6,753 crores against INR5,086 crores for the corresponding quarter of the previous year, up by 33%.

The outstanding loan portfolio stood at INR2,77,987 crores against INR2,62,336 crores as on 30th of September 2022, reflecting a growth of 6%. Out of this, the individual home loan portfolio stood at INR2,34,509 crores as against INR2,16,771 crores, up by 8%. And this home loans portfolio comprises 84% of the total portfolio. Total disbursements for the quarter were INR14,665 crores against INR16,786 crores in the previous quarter last year.

Home loans were -- during the quarter, home loans were INR12,516 crores as against INR14,300 crores. And project loan disbursement was INR433 crores against INR407 crores for the same period in the previous year. So project loan growth was -- disbursement was slightly up by 6%. The disbursement for the quarter reflects a 35% growth over Q1 of FY '24, though it still remains below the Q2 FY '23.

As I had shared in the post results call of the first quarter on the 3rd of August initially in the beginning of the year due to a complete revamp of the technology, we had some technology-related issues, which had affected the numbers in Q1 and the first month of Q2.

But now these technological issues have been resolved, and ever since August and in the month of September and even in October, we are witnessing a month-to-month improvement in the -- improvement and the trend is pretty much more visible in October where the sanctioned figures have clocked almost 15% to 20% Y-o-Y growth.

So I see this as a very positive reflection that -- of the portfolio growth in the coming quarters, and I believe we should grow at a much higher rate as to what we've been doing so far in the 2 months of the current -- 2 quarters of the first -- of the current financial year.

Net interest income stood at INR2,107 crores as against INR1,150 crores for the same period in the previous year, which is up by 83%. Net interest margins for the current quarter stood at 3.04% as against 1.78% for Q2 of financial year '23.

We have been able to maintain the NIM above 3% for two consecutive quarters in a row. PBT is -- for the quarter was INR1,480.06 crores as against INR378.85 crores in the previous year, registering a growth of 291%. PAT for the quarter stood at INR1,188.05 crores as against INR304.87 crores for the same period in the previous year, a growth of 290%. In terms of asset quality, the Stage 3 exposure at default as on 30th of September current year stood at 4.33% as against 4.90% as at 30th September of last year.

Total provisions as on 30th September current year stood at INR6,512 crores, reflecting a provision coverage of 41% as against 44% in the quarter last year. With our continuous and focused efforts on recovery, we have been able to achieve significant reduction in NPA in Q2. Also in the current quarter, we have also gone in for a technical write-off of INR925 crores. All these loans were carrying 100% provision. Recovery efforts were put on maximum focus during the quarter.

A lot of focus was on the feet on the street, going and meeting the delinquent customers, motivating them to pay back. And there was a net reduction in Stage 3 sequentially without considering the write-off also. Further improvement is likely to come in the coming quarters. And the Stage 2 accounts also have witnessed significant improvement with our rigorous recovery and all of efforts.

On the funding side, the cost of funds, which stood at 7.66 as compared to 7.62, slightly uptick of 4 basis points. Incremental cost of funds stood at 7.73 for Q2 of FY '24. During the quarter, the short-term benchmark 364-day T-bill moved from 6.79 to 7.18 and 10-year G-Sec also witnessed significant increase in the yields.

Despite the increase, the increase in the weighted average cost of funds was restricted to about four basis points. The company also renegotiated on the existing funding availed from various banks and was able to obtain better pricing.

The margin for the quarter is 3.04%. On the interest rate scenario, likely that interest rates will remain elevated for a long period of time, considering the inflation situation. So with this brief introduction, I would like to invite you for the queries. Thank you.

Moderator: Thank you very much. We will now begin with question-and-answer session. The first question is from the line of Mohit Jain from Tara Capital Partners.

Mohit Jain: Sir, I have two questions for you. First one is regarding the overall loan growth, sir. I heard that you said that the system issues have now been resolved and the book is now going to grow at a good pace. So sir, in this situation, should we -- are we going to stick to our guidance of 12% to 15%?

Tribhuwan Adhikari: Yes. Our basic guidance at the beginning of the year and even at the con-call of -- at the end of Q1 10% to 12%, we stick by the guidance.

Mohit Jain: Okay. Because I think that the ask rate now for the remaining 6 months is going to be almost like 5% per quarter that we need to grow. So we are confident of seeing that number.

Tribhuwan Adhikari: Yes, Mohit. We do understand that asking rate has, of course, gone up because of our slightly lower-than-expected performance in Q1 and Q2. But we are well poised. We are well poised. We are witnessing significant improvement in the situation. The sanction numbers are pretty comforting, especially in October. Yes, there is a gap between -- gap of almost 20% between the sanctioned and the disbursements. So we believe this gap is going to be bridged and already in October, we have witnessed a significant growth. I think this will continue for the next 2 months. And I think the quarter 3 will be a good quarter for us.

Mohit Jain: Okay. Okay. Sir my second question is regarding the credit cost. Sir, on a quarter-on-quarter basis, it has increased from 50 basis points to 60 basis points. And I guess you've explained that the write-offs were 100% provided basis, so I don't think that will have a real impact. Sir what is the -- is it because of seasonality that the credit cost has increased? And do we stick to that original guidance you said that our credit cost is supposed to come down to 40 to 50 basis point because Q1 was already higher at around 70 -- I think -- sorry, Q1 was at 50 basis points, this time also it's around 50 basis point.

Tribhuwan Adhikari: Yes. Mohit, I'll ask Sudipto Sil, our CFO, to take this.

Sudipto Sil: Actually, if you see the published accounts, in there is a note which we have put. There basically a charge of INR105 crores approximately, INR104 crores, which is a one-off because this is basically pertaining to some of the repossessed assets where we have reclassified from the assets held for sale to loans. So for that, we had to -- we had made an additional provision of INR104 crores net. So if you remove that INR104 crores net, then probably the real credit cost charge for this particular quarter will be reduced.

Mohit Jain: And we don't expect such charges in the subsequent quarters. I think we will not have a...

Tribhuwan Adhikari: You never know, Mohit.

Sudipto Sil: No. This is a onetime one-off.

Moderator: Our next question is from the line of Gaurav Sharma from HSBC Securities. Please go ahead..

Gaurav Sharma: Yes. Sir, just a couple of questions. One is I just want to know your incremental lending rate and incremental cost of borrowing for quarter 2? That is one. And second, sir, my question is pertaining to PCR. So like a couple of quarters, we mentioned that we have moved to 52%, 50% PCR. Now it has again come back to 42%. So just wanted to know the time and the -- again, we'll be targeting that 50% PCR or it can remain at the current levels only?

Tribhuwan Adhikari: No, I'll take the part about the PCR, Gaurav. Yes, the PCR has slightly come down. In Q2, it was 42 -- sorry, Q1 of current year, of the current financial year, it was 41. It has -- 42, it has now come down to 41. So there has been a 100 basis point reduction. This is partly because of these write-offs which we have done.

Yes, the RBI mandate is that we should aim for a PCR of approximately around 50%. Of course, we do understand that all our lending is totally covered by -- totally covered by securities and mortgages. So compared to the banks, we are slightly, I would say, more comfortable as far as the collaterals are concerned. But still, it is our endeavor.

Yes, 41%, 42%, we believe, as a management, we are comfortable. Yes, we would like to take it up to 50% as mandated by -- or as requested by RBI governor. Of course, for banks, it is, I believe, 60%. I will keep it on the similar levels initially and then scale it up depending upon recovery. Yes, we would definitely like to have more comfort on the PCR side would try to attain 50% as quickly as possible.

Sudipto Sil: Yes, I might add to that. For example, the -- if you actually add back the write-off amount of about close to INR925 crores, then you'll actually find that the PCR level is higher than what it is optically shown here, number one.

Number two is that we are expecting improvements on the recovery front, which will automatically reduce the outstanding NPL size and amount and that itself will lead to an improvement in the PCR otherwise also.

Tribhuwan Adhikari: Gaurav, just to comment on that. On the recovery front, yes, there a lot has been done. We've really hit the streets. Our team is already hitting the streets in a big way approaching customers. We are also exploring whatever options we have, the legal options we have. We are exploring all of them. So in fact, everything is going together. There has been a significant improvement in the recovery effort in the quarter.

Receivables part, we are also doing well. Now the only thing is that, yes, 2 issues there are -- we are -- what we see in the horizon are a few big cases. Project loan has been our Achilles heel, if I may say that, almost 40% NPA in the project loan side.

Yes, we are targeting the big cases, and a lot of the cases are in NCLT and IBC. We can see a few big cases that come into resolution in the horizon. So that -- and of course, we have -- we are also pursuing the OTS route aggressively. And yes, one thing which I had said in the first quarter that we were exploring the ARC route, so long until the end of the first quarter, we had not explored or not ventured into the ARC route.

In the current quarter, yes, we have taken a pool of loans to the ARCs who should be coming back to us shortly. So taking that, I think in the remaining part of the quarter in the coming quarters, we are going to go aggressively and take the ARC route for the lumpy and sticky loans for which we see no resolution.

Gaurav Sharma: Understood, sir. And one question, number one, that is incremental lending rate and cost of borrowing.

Tribhuwan Adhikari: Incremental lending rate and cost of borrowing, Sudipto?

Sudipto Sil: Yes. Yes. See incremental cost of fund is around 7.73 and incremental lending rates if everything put together is -- I mean, largely now as you've been knowing, largely it is in the retail side that we are lending. But if you aggregate with a little bit of project loans and other assets that we are doing, it is around 9.4 roughly.

Gaurav Sharma: Sir, incremental cost of borrowing I was asking, actually incremental cost of fund you mentioned.

Sudipto Sil: Incremental cost of borrowing 7.7 to 7.73.

Gaurav Sharma: Okay. So it is same as incremental cost of fund and incremental cost of borrowing at the same rate, right?

Sudipto Sil: Yes, yes, yes.

Moderator: Our next question is from the line of Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Sir, just a couple of questions. One is, what was the disbursement amount for the month of September?

Tribhuwan Adhikari: One question only or do you have some more?

Raghav Garg: Yes. So my other question is with respect to the last quarter, you had spoken about some NCLT recoveries, I think you just touched upon it in the previous question. If you can provide some timeline as to when can one expect that these recoveries or resolutions would materialize and we would see some benefit?

And then my third question is, what is your margin outlook for the second half? Given that we're already trending above 3% for the first half, something that we haven't seen in the last many years, what would be your expectation as far as margin is concerned and whether we can sustain at this level or not? Those are my 3 questions.

Tribhuwan Adhikari: Okay. Yes. Raghav, the first question was about disbursement figures for September. September, the total disbursement was INR4,813 crores as compared to INR5,509 of last year. Yes, there was a slight degrowth. So this was it.

Coming to NCLT, as I said, NCLT, this is a legal framework. Yes, from the current status of the cases, we see in the horizon that these cases could get resolved and resolution could come through probably in 2 to 3 months' time. But again, legal, you know, you can never predict what is going to happen on the legal front. So yes, we do see some big cases.

There are other -- we are in talks with various other big delinquent borrowers especially on the project loan side. They are expressing interest in OTS, which we are following up. So that also we see a few good loans coming sort of getting resolved.

Overall, if I may put it to a figure, I believe somewhere in the region of INR400 crores to INR500 crores of sticky and lumpy loans which are existing in our books today, I expect them to come for -- to come up -- to be resolved rather not come up, to be totally resolved in the current quarter.

Now coming to the NIM. Yes, the NIM, it's at 3.04% in the current quarter, yes, 3.21% in Q1, but that was, I believe, as I said in the con-call of 3rd of August, I think that was the peak, 3.21% was the peak. And I had clearly indicated that we would not be able to sustain it. And slowly, we expect the NIMs to come down.

And that is precisely what has happened. So from 3.21%, we are at 3.04%. The guidance we had given you was in the region of 2.6 -- 2.5, 2.6. Yes, I think I still maintain that guidance, and I think we should be able to achieve the guidance of probably 2.6 to 2.8 in the current financial.

Raghav Garg: Sir, just 1 follow-up question. Sir, September disbursement is about INR4,800 crores. And if you look at for the full quarter, that's about INR14,700 almost INR15,000 crores. Earlier during the call, you had mentioned that the disbursements have been picking up month-on-month. So this INR5,000 crores of disbursement in September versus INR15,000 crores for the whole quarter, it doesn't sit right when you say that there has been monthly improvement or month-on-month improvement. Can you explain a bit more on that?

Tribhuwan Adhikari: No. If I go by -- yes, if I just give you a figure, I don't have the exact figure. But if I tell you, July was around about INR4,500 crores, right? August also, I believe, was somewhere near that. So compared to that INR4,880 crores, some progress we are seeing.

If you look at the figures in Q1, it was INR3,000 crores for, I believe, INR3,000-odd crores for April and for June, it was around about INR4,000 crores-odd. So looking at those numbers, I see an improvement.

And another factor which we -- I am also considering is my sanctions, right? I believe right now, my sanction to disbursement ratio is around about 80%. That means what I am sanctioning only 80% of them I'm able to disburse.

I expect in this quarter, this to be much, much, much higher. That is what we've been after with the marketing teams. And I believe with the first festive season around the corner and some special, I would say, festive offerings, which we have given to our customers, special days, etcetera, definitely I am very optimistic about the business part of it in Q3.

Raghav Garg: Sir, would October disbursements be lower than September, would you say that? Or...

Tribhuwan Adhikari: No, no, no.

Raghav Garg: Would it be materially higher than September?

Tribhuwan Adhikari: Definitely, it will be higher than September. September -- my September disbursement figure was INR4,813 crores as I told you, right? And October, I would definitely expect -- yes, October, October is already over. October disbursements are about INR5,000 crores. I don't have the exact figure right now, it is INR5,100 crores-something, right? So there has been an improvement in that. And October, I see a significant increase in the sanctions. There's a 15 -- I think its 17-point something, I don't remember exactly, 17% growth year-on-year.

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

Nischint Chawathe: Just one question from my side. Yes, if I look at the GNPL, we have seen almost a INR1,700 crores sequential decline in GNPL. I believe INR900-odd crores comes in because of technical write-offs, what is the balance?

Sudipto Sil: Yes. Nischint, actually the technical write-off on the principal side is around INR925 crores. There is also an element of some reduction. I mean this is also a write-off which is pertaining to the income on the Stage 3 assets.

Nischint Chawathe: So can you give a breakup in terms of what it is? I mean if you can just sort of help us reconcile 1,600 and 900?

Sudipto Sil: Sorry?

Nischint Chawathe: Can you help us reconcile the...

Sudipto Sil: Seven loan accounts on the project side, which itself is around INR699 crores, you can take INR700 crores. The balance INR225 crores pertains to a good number of retail accounts.

Nischint Chawathe: The point I'm trying to make is that can you reconcile the INR1,675 crores and INR900 crores, what is the difference? I think that's what I'm saying.

Sudipto Sil: Yes. So out of INR1,600 crores, actually, as I told you INR925 crores pertains to the principal portion of the loans written-off, then there is also an amount of interest, which was there in the E&D that is the exposure and defaults that is close to around INR500 crores that has also been written-off.

Nischint Chawathe: And then the balance could be some recovery? Is there any...

Sudipto Sil: There is some actual recovery on ground.

Nischint Chawathe: And how much would that be?

Sudipto Sil: Maybe around INR200 crores to INR300 crores approximately.

Moderator: Our next question is from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah: Yes. So sorry to take forward that question. So in terms of the recovery or actual improvement in Stage 3 that seems to be like around about 200 or maybe stage -- plus Stage 3 is that amount. Last time, you highlighted that we will see unwinding of another part of stress, which was there due to disruption.

So is there more left for Q3 and we should see the further improvement both in terms of Stage 2 and Stage 3. And similarly, with write-off, is it largely done? Or we will see more write-offs coming into Q3 and Q4 as well?

Sudipto Sil: Yes, you have -- the first part of the question. See, the actual improvement you will get to see in Stage 2. Because Stage 2 is actual improvement, which upgrades to Stage 1. So that is something that you kindly note that is one improvement, which is there, actual recovery from Stage 3 accounts, complete recovery through closures, etcetera, that also, as I mentioned in the previous answer, that also is there.

As far as the write-off is concerned, now these accounts, which have been written off are the ones which have been fully -- wholly written-off. Now this will -- the size of this, obviously, will not be every quarter. It will not be such a big size, but some small, small -- some few hundred crores of accounts which have been fully written-off, I mean, fully provided for 100% provisioning, that will keep on continuing because these are only technical write-offs. And the follow-up action, legal action, NCLT action, everything continues as it is.

Kunal Shah: Okay. But that quantum would be hardly like INR100-odd crores, not fully extent of like...

Sudipto Sil: See, actually, for the last 3 quarters, I think we had not done any significant write-offs. So you can say to some extent that there is also some kind of a pileup of last couple of quarters, at least.

Kunal Shah: Okay. And reduction in Stage 2, you are highlighting that is more in terms of upgrades into Stage 1 rather than flow through in Stage 3?

Sudipto Sil: No, no, this is upgrade to Stage 1.

Kunal Shah: Okay. A larger part of the reduction, which has been there in Stage 2 assets?

Sudipto Sil: So Stage 3 has been -- Stage 3, even without considering the write-offs that we discussed, even without considering the write-offs, there is an improvement. Stage 2, there is an improvement in terms of upgrades to Stage 1.

Kunal Shah: Yes. Okay. Because if I look at Stage 3 purely, the difference and if I add on to the maybe the write-off then there is some increase, maybe not much INR120-odd crores kind of an increase, which is there in Stage 3. So just wanted to get whether it's more...

Sudipto Sil: There's actually an increase -- I mean, there is a reduction in Stage 3 by approximately around INR100 crores, INR150 crores or so.

Kunal Shah: Okay. And secondly, in terms of the repricing, so now given that the growth is also around about 6-odd percent, 1% sequential, has there been a lot of repricing requests, which are coming in and then maybe we are pricing it lower. So would there be some proportion because it's have also come up during the quarter. So any particular portion of the book, wherein we saw the repricing lower in this quarter?

Tribhuwan Adhikari: Yes. Well, if I -- let me clarify this. Well, I told you that in Q1, we had gone in for a technological upgrade. And due to that, we run into some problems, some challenges. One of the challenges was rewriting. So in Q1, there was literally no rewriting option available to our customers.

So resultantly, in Q2, the entire rewriting -- in fact, in Q2, in Q1, there is -- the rewriting was 0. In Q2, the rewriting was to the tune of INR9,291.55 crores. So there was a huge impact of rewriting which probably affected our margins.

Kunal Shah: Okay. That was a INR9,000 crores of a book?

Tribhuwan Adhikari: Yes.

Kunal Shah: Okay. Okay. And this would have got repriced to what extent maybe people are bargaining for 50, 100 basis points, how would that be?

Sudipto Sil: Yes, of course, it depends on where they were. The repricing would be probably in the region of 9%, 8.75% to 9%, approximately up to 200 basis points repricing would have taken place.

Kunal Shah: Okay. 200 basis points repricing.

Tribhuwan Adhikari: That is the range.

Sudipto Sil: That is the range.

Sudipto Sil: That is not the average.

Kunal Shah: Yes. Got that. And now just last question in terms of margin versus growth. The preference would be more in terms of sustaining the margins rather than growing? Or maybe now we will see the uptick in the growth in a sense at some cost of margins because now it is settling at more than 3%?

Tribhuwan Adhikari: Yes, agreed, this is Hobson's choice. We go for growth, go for margins, exactly. But no, I think we'll concentrate on both. We concentrate on the book on growth. We will be looking at getting the margins as well as showing growth because we need to grow the loan book, that ultimately would translate into better margins.

Moderator: Our next question is from the line of A.M. Lodha from Sanmati Consultants. Please go ahead.

A.M. Lodha: There is really a small request. You just simply file a letter to the exchange where the presentation has been uploaded and press release is uploaded on the website. We had to go the website and there is all these other companies are filing the presentation and the press release direct to the -- beside uploading on the website of the company, they are filing -- and I think that their presentation and the press release to the list of exchange directly at NSE and BSE.

So investors can have easy accessibility to the press release and the presentation, instead of going -- even in your letter, the letter does not have the green lines, which we can push, push and go to the website. Is it just a photocopy of the paper enclosing the filing and extra, nothing else, number one.

Number two, sir, this is my suggestion. I trust the management will take care of filing their presentation directly to the company, sir directly to the exchange website beside uploading on the website.

Sudipto Sil: Yes. Okay. We'll take note of it and see how it is...

A.M. Lodha: Every company is filing, sir. Every company is filing presentation directly to the exchange along with the letter, here is the presentation of the company and a press release in regard to the second quarter results.

Tribhuwan Adhikari: Okay, sure. Sure. Point taken.

A.M. Lodha: Second, my request is, sir, the company, I am quoting your paragraph of Mr. Adhikari from the commentary on the press release, The demand continues to be robust and overall economy is doing very well.

Sir, I am telling you each and every small finance company, each and every bank, finance and every home finance company has grown more than 10% to 15% in the quarter and 6 months, whereas LIC Finance has actually -- there is a degrowth in the loans. In quarter 4, loans have been INR12,000 crores against INR14,300 crores. And 6 months disbursement is INR25,000 crores against INR31,000 crores. What is this? Is the company is working like a sarkari company. We know it is a sarkari company, but that doesn't mean that we would work like a sarkari company.

Tribhuwan Adhikari: No, no, no, Mr. Lodha I completely disagree with you. We're not working as a sarkari company. Yes, what exactly would you want to know? Yes...

A.M. Lodha: Yes, I wanted to know there is degrowth in the loans in the -- you see you -- did you see the pace of the housing, you see the pace of the home loans, you see we pace of the economy, even housing is being sold basically, even every housing material is being sold basically, and you are -- there is a degrowth in the company in the quarter and half-yearly in the disbursement of the loan.

Tribhuwan Adhikari: Yes, yes. On the loans, Mr. Lodha I agree. There has been a degrowth in Q1 and Q2, we have explained it earlier also. Yes, Q1, we had some major issues with the technology and results in...

A.M. Lodha: But Q2, sir, also showing degrowth.

Tribhuwan Adhikari: Yes. The effect in this -- Mr. Lodha, you would understand that things do not set right immediately. And whenever there's a disruption in 1 quarter, it takes time to settle down. So Q2 has been better than Q1. But of course, I do concede there's a degrowth. Let me assure you in Q3, you will not see any degrowth.

A.M. Lodha: Please, please, do something for the betterment of the shareholder, sir.

Tribhuwan Adhikari: When we meet in Q3 at the Q3 con-call, you will have neither the complaint about the upload of the presentation nor about the business.

Moderator: Our next question is from the line of Aniket Kulkarni, from BMSPL Capital. Please go ahead.

Aniket Kulkarni: I had a couple of questions. So firstly, let's say, in a hypothetical scenario that interest rates do come down by 100 to 150 basis points in FY '25. So if this happens then how will the NIMs look versus the current levels? And secondly, do we expect to maintain greater than 15% ROE in the next couple of years? And if so, what will be the reasons behind it? These are my 2 questions.

Sudipto Sil: Yes. Sorry, what was the last part of your second question, I just missed it.

Aniket Kulkarni: Yes, so the second question...

Sudipto Sil: You are talking about ROEs?

Aniket Kulkarni: Yes. So do we expect to maintain the greater than 15% ROE for the next couple of years? And if so, what will be the reasons behind that?

Sudipto Sil: Yes. Actually, the first part -- I mean, your second query regarding the ROEs. ROEs, obviously, we have made significant improvements as compared to last year. And our targeted levels of ROE are always in the range of around at least 16% to 18%. Right now, we're at 16%. So that will be the management focus without any deviation or any diversion that will certainly be a management focus to maintain ROEs.

And we can say that we are in a position to maintain at least a decent level of ROEs that we are currently holding right now because of improvements in the ROAs, structural improvements in the ROAs that you have seen and also because of the fact that progressively, going forward, at least 25 to 30 basis points of credit cost has reduced as compared to last year, so you can say that around 25 -- approximately 25 basis points of credit costs have been reduced. So that will certainly also add to at least 2 percentage points on the ROE.

Now your first question is regarding the situation of interest rate reduction, of course, interest rates. Nobody can predict, it can go up further, it can come down or remain wherever it is. We have seen earlier cycles also that during the reduction in the interest rates, we have been able to utilize our AAA rating to borrow much cheaper from the market as compared to any other player. So that situation remains unaltered.

In fact, slightly better off now because right now, if you look at it, we are the largest housing finance in the country with a AAA consistently for the last 22, 23 years. So that certainly gives us a benefit or advantage in the bond market.

Aniket Kulkarni: Yes. So will the NIMs be maintained at, let's say, the current guidance of 2.6, 2.8?

Sudipto Sil: Current guidance -- see, obviously, in our Q1 call also we said that 3.2, 3.21 NIM whichever we had -- I mean, assured that is certainly on the higher side, and it's the peak. And we have -- our MD just has indicated that -- at the beginning of this year, we were looking at a NIM range of between 2.4 to 2.55. Right now, we feel more comfortable or more confident in looking at a NIM range of between 2.6 to 2.8, which should be maintained.

Moderator: Our next question is from the line of Gaurav Jani from Prabhudas Lilladher. Please go ahead.

Gaurav Jani: One is this quarter, we have seen higher repayments of about INR13,000 crores, if you had to back up here the numbers. So any particular reason for this? I mean, why is this number higher?

Sudipto Sil: Yes, we have seen some lumpy project loans getting prepaid, especially towards the end of the quarter.

Gaurav Jani: Okay. And sir, could you split as to between the repayments as to what would have been between individual housing and project loans?

Sudipto Sil: See, right now, I do not have the full number, but I can share with you that overall trend, if you look at the repayment plus prepayments put together, lump-sum prepayments rather not the repayments. The prepayment is around 10.3%. It generally varies between 9 point -- around 9.5 to 10.5 range, that is what we have seen over the last few quarters.

Gaurav Jani: No, sir, what I was trying to understand, sir, is that is it because of the competitive intensity from banks that we are losing out customers?

Sudipto Sil: No. This was, as I mentioned, there was a one-off large builder account which got closed.

Gaurav Jani: Okay. Okay. So can you provide the quantum or...

Sudipto Sil: If you see the builder loan portfolio, which is there in the presentation, you'll see that's shrinking despite some increased disbursement has shrunk. That is the reason.

Gaurav Jani: Understood. Secondly, MD sir mentioned regarding an ARC resolving lumpy accounts fully ARC route. So this will be over and above the resolutions of INR400 crores to INR500 crores that you mentioned in Q3, right?

Tribhuwan Adhikari: Can you come again, Gaurav? ARCs...

Gaurav Jani: Sir, you did mention about resolving lumpy accounts through the ARC route, right? So just want to clarify, would this be over and above the INR400 crores to INR500 crores of resolution that you're looking at in Q3?

Tribhuwan Adhikari: Yes, definitely, definitely. This is over and above the INR400 crores to approximately INR500 crores of resolutions, which we see coming up in the horizon from NCLT and a bit from OTS also.

As I said, ARC, we had not yet explored ARCs until now. It was only in the second quarter that we have taken up a small pool to the ARC just to test the waters, if I may use the word, just to test the waters. And I think they should be coming back shortly to us. And going forward, we intend to take it a bit a much more serious way. So definitely, ARC would be an option. We will be exploring to resolve our lumpy and sticky loans, where we see no resolutions coming forth.

Gaurav Jani: Sir, just to clarify on this side. Could you provide a runway as to what's the targeted pool of these lumpy loans as well of total quantum and what's the total provision on these loans? I mean have we sort of put our head to this? Or we will just take it forward as it comes?

Tribhuwan Adhikari: Gaurav, as you said, this is something new field where we are entering into and we just entered into Q2. Right now, we've taken about 15, 20 occurrence to the ARC. So we've not really put our heads. We're looking into -- we are trying to go through the first pool which we have put up. And let's see how it goes, and I'm pretty optimistic it will go well. And once it goes on and then we really put our heads.

Moderator: Our next question is from the line of Varun from Kotak Securities. Please go ahead.

Varun: I have 2 questions. First one is on data keeping, which is regard to the segmental NPA, could give you the details of that? And the other one is on the bridge between...

Tribhuwan Adhikari: Varun, could you come again, we couldn't get you?

Varun: Okay. There are 2 questions. The first one is on the segmental NPAs, so if you could give the details -- give the details of segmental NPAs of the loans and all and the second question is on the bridging of gap between sanctions and disbursements. You said there's a 20% gap that is going to be bridged. So what are the factors driving this? That's my question.

Tribhuwan Adhikari: Okay. I'll ask the -- segmental NPA, I'd request Sudipto to take it.

Sudipto Sil: Yes. Segmental NPA for the individual home loans as on 30th of September is 1.17 Stage 3. Then for the nonhousing corporate, which includes the project loans, it is 35.48. Of the nonhousing individual, it is 7.13. These are the Stage 3 as of 30th September.

Varun: Yes, sir, and regarding the sanctions?

Tribhuwan Adhikari: Yes, Varun, after that?

Varun: The second question was on sanctions, the bridge between sanctions.

Sudipto Sil: Yes. As I said, right now, our sanction to disbursement ratio is only 80%, 80% of what we have sanctioned has been disbursed. And your question, I believe, was how do we bridge the gap? How do you bridge the gap, right?

I think we need to be more aggressive on the thing. We really need to turn -- our TAT because the -- all the files moving from the area office to our cluster offices which are newly opened. One more thing, these cluster offices are newly opened in this current financial year.

So again, in the beginning, we had some issues as regards to the functionality of these offices. Those have been taken care of. Now I think we really need to focus on reducing the TAT and ensuring that the TAT between the sanction and the disbursements are reduced.

Moderator: Next question is from the line of Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: I joined the call a bit late, so apologies if you've already answered this. But what would be the sustainable level of NIM say in FY '25, '26 once this entire repricing benefit kind of flows through? And what kind of sustainable credit cost are you looking ahead also probably say in FY '25-'26?

Sudipto Sil: Yes. As far as the credit cost is concerned, we had indicated that around 50 basis points for the current year, ballpark, 50, 55 basis points ballpark in the current year should be maintained. You are asking about 2025?

Jigar Jani: So normalized, say, I'm just trying to figure out what will be the normalized credit costs going ahead?

Sudipto Sil: Going forward beyond '24 that is, right?

Jigar Jani: Yes, yes.

Sudipto Sil: Yes, that should come down, credit cost should come down. Right now, probably the way it has come down from 78 basis points to around 55, 56 basis points in this first half of the year gives an indication that probably it will come down further, at least around 10, 15 basis points going forward in FY '25, '26 looks very much achievable as far as the credit cost is concerned.

Then your second question regarding the margins, right? Your first question was regarding the margin, sustainability of the margins. Sustainability, we have discussed in the beginning of the call also when we had started the year we were looking at increase from last year.

Last year, itself was an increase over the previous year. So last to last year, we had delivered a margin of around 2.29 in FY '22, FY '23 that's got elevated to 2.41 and from the beginning of the year, we were confident of delivering around 2.5 thereabouts.

Right now, what we are looking at current financial year is around 2.6 to 2.8 should be comfortably and confidently, we are confident of delivering in that range. Going forward, FY '25, assuming the interest rate scenario remains relative, I think we should be able to comfortably hold on to those levels.

Moderator: Our next question is from the line of Shubranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: Can we speak on the log-in to sanctioned ratio and then boil down the sanction to disbursement ratio so that we can figure out what is the rejection ratio. So are we like just about not rejecting anyone, especially when we are in a down cycle in credit right now, especially in the lower ticket sizes. So if you can speak on that?

Tribhuwan Adhikari: Yes. So Shubhranshu, well, honestly, I do not have the log-in figures with me because log-ins could be anything from a financial log-in or just a request you could be logged in. What we look at in the company is what has been sanctioned and what has been disbursed. So that is what -- that is what our focus is. Log-in is...

Sudipto Sil: And if I may add, your query regarding whether we are not rejecting question does not arise right, because all lending is based on CIBIL score. So question of rejecting -- accepting a weak credit doesn't arise itself when there is a basic threshold of credit scores below which we don't accept any loans, whether it is log-in...

Shubhranshu Mishra: What is that threshold CIBIL score threshold, sir?

Sudipto Sil: Our 80% of the business gets done at a CIBIL score of 720-plus, 80% of the business and below 650, no credit score is accepted.

Shubhranshu Mishra: Below 650, sir?

Sudipto Sil: Yes.

Shubhranshu Mishra: Okay. Okay. And sir, what is the business as usual sanction to disbursement ratio, say, 2, 3 years ago pre-COVID what was this ratio, sir?

Sudipto Sil: In the 90s. It was close to around 90 -- 85 to 90.

Moderator: Our next question is from the line of Punit from Macquarie.

Punit: Yes. Sir, on the yields front, like 1Q, you witnessed a 15 bps increase, and in this quarter it was a steep decline. So what will you attribute this to? Because since all the loans are floating, they can't -- is there any one-off? Like is there any interest reversal? Can you just elaborate on that?

Sudipto Sil: No, I'm not able to...

Tribhuwan Adhikari: No, Puneet, we couldn't get you. Sorry, could you just be a bit more specific?

Punit: So in 1Q, you witnessed an yield uptick of 15 bps, but now on an overall basis in 1H it's like 10 bps down. So what caused this? Because for peers, we are not seeing any decline in yields for the HFCs at least, right? So if you could elaborate on that?

Sudipto Sil: No, I think that is something that we had discussed just a few minutes back that there was some repricing requests from existing customers.

Punit: Yes. So you said that the 200 bps should have taken place for most of the customers, but because of this system issue...

Sudipto Sil: Yes, that is one reason. And there is another reason which also we discussed that some builder loan got closed. And obviously, you would be knowing that builder loans at a higher rate of interest. Another is that existing book customers requesting for a lower rate of interest and as a retention strategy and being good customers, we retain them. And there were some lumpy accounts which were in the high-yield bracket, which got closed.

Punit: Right. So just from a perspective, this 200 bps next quarter this would take place, right, because the system issues are sorted. The next quarter we'll, again, on a sequential basis, we'll witness an uptick, right, in yields? If I'm getting my understanding right.

Sudipto Sil: No, actually, I'm not able to understand if you can kindly...

Punit: The repricing that you said the 200 bps repricing that you were not able to do because of the system issues that you had now since the issues are resolved, next quarter, this will take place, right? The...

Sudipto Sil: That has already started happening in Q2.

Punit: Okay. Okay.

Sudipto Sil: Q2 it has already happened.

Tribhuwan Adhikari: Puneet, just let me clarify. In Q1, we had no rewriting. So naturally, there was a huge spillover into Q2, and I gave you the figures that INR9,291 crores of business got rewritten, right? And so the overall rewriting not on an average, but it was around about a reduction of 200 basis points. That did affect our margins. Now that the technological issues are over, as I said in the beginning, the rewriting will come back to normalcy, it is not that rewriting won't happen, but they will come down to a normalcy. It will definitely not be INR9,000 crores in Q3. And it should be somewhere in the region of maybe INR3,000 crores, INR4,000 crores.

Moderator: Our next question is from the line of S. Rozani from SV Rozani. So may I request that we move to the next participant, as there's no response. Our next question is from the line of Hardik Shah from Goldman Sachs. Please go ahead.

Hardik Shah: Sir, can you give some color on the loan transfers in the quarter? What is the usual run rate? And are you seeing any increase there?

Sudipto Sil: Loan transfer...

Tribhuwan Adhikari: Balance transfer you mean?

Hardik Shah: Balance transfer. Yes, yes, yes.

Tribhuwan Adhikari: Yes, in the quarter, BTs were about INR2,300 crores, INR2,300 crores -- the exact figure is INR2,396.65 crores.

Hardik Shah: Okay. And this is the pool to which you had also offered a retention rate, but they still moved out? How does it usually work?

Tribhuwan Adhikari: No. It could be a host of factors. It's not a question of us offering retention rate. Yes, some of it I would agree, would have been slightly because of the technological issues customers having some issues with their loan accounts and probably not being very satisfied with us, yes, that could be one of the reasons.

And of course, the other reason is the competitive pricing being offered by competitors. So that always happens. Of course, yes, 2,300 -- almost INR2,400 crores got taken over. We also took over about INR1,200 crores. Yes, agreed the gap between the takeover from us and the takeover by us is about, what, INR1,000 crores, INR1,200 crores-plus. But I expect...

Hardik Shah: Is this rate higher than before or is it business as usual?

Sudipto Sil: See, actually, if you look at steady-state BTs it has more or less stabilized at around -- between 3% to 4% on the portfolio on an annualized basis. So this also -- this number I just shared with you that also more or less works in that range, around 3.3%. So over a period of years, it has stabilized. But as MD mentioned, there was a spike because of the technology-related servicing issues, which hopefully going forward, have reduced.

Tribhuwan Adhikari: Yes, Hardik, I see a reduction in this or rather let me use the word, I see a reduction in the gap in turnover from us and turnover by us?

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

Vipulkumar Shah: Sir, so what is this technical write-off of INR925 crores, I'm still not able to understand?

Tribhuwan Adhikari: Well, Vipul, it's like this. These are all NPAs which are 100% provided for. So that means a provision of 100% has been made against each one of them. Our technical like write-off basically means that it gets written off from my books of accounts and the balance sheet. Balance sheet gets clean, right? So they are reduced from the NPAs as well as the portfolio also gets reduced by the same margin.

Tribhuwan Adhikari: And also the provision...

Sudipto Sil: And also the provision gets released. But at the same time, they remain on the ledger so the follow-up action, legal action, SARFAESI action, whatever is happening, that continues.

Vipulkumar Shah: Okay. So that gives you the chance to recover, right?

Tribhuwan Adhikari: Yes, yes, yes. It is there in our -- I would use not books. I will not use the book because it has been off, it's taken off the books. It is there in our loan ledgers. It continues to be in our loan ledgers and the follow-up action for recovery, the legal action for recovery, the OTS action and even the ARC action all options all are available to us.

Vipulkumar Shah: And sir, my second question pertains to project loans where we have NPA of around 35% to 40%. So what is the logic of continuing with such type of loans where every INR1 out of INR3 lent become NPA, so I simply do not see any logic to continue this business.

Tribhuwan Adhikari: Let me give you a perspective on this. Our project loans, I agree, are the sort of delinquency ratio is almost 35%, 40%. But in the last -- if I look at my project loan disbursement in the life -- last 5 years, 5 financial years, if I may say, our delinquency ratio is only 5%.

So basically, these are all loans given earlier to 5 years, which have turned bad. So honestly, I would not say that project loans as such are bad. Yes probably in the early stages when we started doing project loans, probably our diligence was not proper or probably we did not have the proper strategies and the SOPs in place.

So that could be one of the reasons. Yes, we are very wary on the project loan side. We are not going whole line and sinker into the project loan. We are being very choosy about when to lend, where to lend, how much to lend, but it is definitely an option. We are not writing off project loans as an option.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Tribhuwan Adhikari: Well, thank you, friends. Thank you to all of you for the con-call. I believe we've answered most of the questions you put to the best of your satisfaction. Yes, Q2 is over. We are looking forward to Q3. Festive season is around the corner, Festive season always bring in joy. And we are also pretty optimistic about our performance, the performance of LICHFL in Q3, all the issues which we had as regards technology, as regards to restructuring, they are now in the back burner.

And I definitely am very, very optimistic that from the business front where we are slightly on the back foot right now, I think we are going to rebound back in Q3. And as some of my friends said, the negative, which you see in the business front, that will be eradicated. Thank you all once again.

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