LIC Housing Finance

Q3FY12 Conference Call Transcript

3 February, 2012

Moderator

Ladies and gentlemen welcome to the Q3FY12 results call of LIC Housing Finance Limited hosted by Emkay Global Financial Services. We have with us today Mr. V. K. Sharma, CEO and Director LIC Housing Finance Limited. As a remainder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kashyap Jhaveri, Senior Research Analyst of Emkay Global. Thank you and over to you Mr. Jhaveri.

Kashyap Jhaveri

Thank you Terrance. Good morning to all of you and thank you for joining us today. We would like to welcome Mr. V. K. Sharma – CEO and Director LIC Housing Finance Limited and thank you for joining us the opportunity to host this call. We welcome all the participants also and thank you all for joining us on this call today. I would like to now hand over the call to Mr. Sharma. Over to you sir.

V. K. Sharma

Thank you. Good morning Ladies and gentlemen. First of all I would like to extend a warm welcome to all of you who have come for this con call. As you are aware we have declared our Q3 results and highlights are with you. Few lines again I will repeat.

Our PAT has grown up by 43% and overall loan portfolio growth is 27%. Income from operations has grown by 32%. And total income has grown by 18%. NPA percentage has come down from 0.67% to 0.63% and individual loan sanctions during the quarter were about 6000 crores up by 13%.

On the business front – the environment has been challenging. There have been macro head wins in the form of high interest rates and overall slowdown in the economy growth. Despite that we have maintained our growth and our loan portfolio has shown a healthy growth. During the quarter we have laid special emphasis on loan approvals to build a good pipeline for the current quarter and we are happy to share with you that the loan approvals for most of the country grew by at least 25%, barring Western and Northern, particularly Mumbai and Delhi. In the month of December, there has been an extremely robust sanction growth which is more than 50% and we hope that we will continue in the fourth quarter in individual segment like this only. Certainly there are issues and concerns on the following net interest margin but let me make it clear that we have gone through this in many cycles may be this must be the fourth cycle wherein we are seeing up and down of this. This time it is particularly because there is a reduction in our developer's loan segment which has happened in last 2 – 3 quarters and secondly the high interest cost which has happened because of the interest rate increase being done by RBI again and again last year. But we are confident that now these going to be the matter of past particularly interest rise. Already the feel good factor has been generated by RBI stopping the further increases and hopefully in the coming quarter there will be some rate cuts as inflation numbers are likely to come down.

Our asset quality has continued to be good. We have not seen surprises despite of this volatile environment and we are confident of maintaining it at the industry level once again. With these words I once again welcome you and if you have questions you can ask we will try to reply you as far as possible. Thank you sir.

Moderator

Thank you so much Mr. V. K. Sharma. We will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on the touch tone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press * and 1 at this time. Thank you. Our first question is from the line of Suresh Ganapathy from Macquarie, please go ahead.

Question and Answer Session

Suresh Ganapathy

Yeah hi sir. Just wanted to get an understanding on your ALM profile sir, how much would actually come up for reprising on the asset side say next year in FY13 and the liability side how much would come up re pricing particularly in the context of you Fix-o-Floaty schemes, how much would it get re priced and at what rate. Sir some rough indications?

V. K. Sharma

See in FY13 there were Rs9000 crores is coming for reprising. That is under Fix-o-Floaty. And of course as and when month passes, it keeps on happening, on the borrowing side already we have started addressing the issue. The amount will be roughly about 15% of the liability will be coming for re-pricing.

Suresh Ganapathy

In FY13?

V. K. Sharma

Yeah. But majority of liability also we have addressed it such a manner that in any particular year or bucket what we call it should not be exceeding the limit.

Suresh Ganapathy

The 15% limit?

V. K. Sharma

Yeah. That's right

Suresh Ganapathy

Okay so this Rs9000 crores, what would be the average rate on this Rs9000 crores and how much would it get re-priced? If suppose we were to re-price as on today's rate?

V. K. Sharma

At present it is 11.9%.

Suresh Ganapathy

Oh and what would be the average Rs9000 crores rate, the older scheme portfolio?

V. K. Sharma

From 8.9, the old rate, the fixed rate has been 8.9 if you switch over to 11.9.

Suresh Ganapathy

Okay. So we can definitely see a margin improvement sir in FY13 very clearly from these levels. Right?

V. K. Sharma

Yeah.

Suresh Ganapathy

Any guidance on margins that you can give that currently it's a 2.27%, where do you see it going?

V. K. Sharma

We have been saying that we would like to put it around 2.7 to 3%. See we are hopeful that in Q4 also there should be some improvement. But certainly in coming financial year it will be around 3% plus.

Suresh Ganapathy

Okay and just last question sir, what would be the targeted project cum retail mix, that has actually been declining but where do you think it will finally stop and even stabilize at that levels.

V. K. Sharma

It will be I would say 90 / 10 or I will say 88.12.

Suresh Ganapathy

But now it's only 5 – 6%, much lower.

V. K. Sharma

You are in financial services business sir, we are also. If we want short term we can distribute a few Rs1000 crores of term loans very easily. Not doing it.

Suresh Ganapathy

Okay. So you will still do it next year to increase from 6 – 10%.

V. K. Sharma

We are going cautiously. But certainly our long term focus is to keep our ratio around 10 – 12%, developers segment.

Suresh Ganapathy

Okay thank you so much sir.

V. K. Sharma

Thank you dear.

Moderator

Thank you. Our next question is from the line of Kunal Shah from Edelweiss, please go ahead.

Kunal Shah

Yeah sir congratulations on a good set of numbers.

V. K. Sharma

Thank you Kunal.

Kunal Shah

Sir firstly definitely what would be the target you mentioned like 90:10 is something which you are looking towards retail to project developers since last time you have been mentioning in 12 – 15 odd months. So in what time span do we see the project developer loan books filling up to 10% levels?

V. K. Sharma

By next financial year you will be able to see that.

Kunal Shah

By next financial year?.

V. K. Sharma

FY13 end, you will be able to see that.

Kunal Shah

Okay and sir the other thing is in terms of individual loan growth, definitely the individual loan book growth is quite strong again at 33%. But there was some moderation in disbursement growth if we look at it mainly because of say the higher base as well. How we are seeing the traction out there. May be you have mentioned in terms of sanction rate have been strong, but what if something which we would like to achieve in terms of the individual loan book growth and disbursement growth.

V. K. Sharma

See we have been saying 20 – 25% outlook right from the beginning and we are hopeful that it is at present it is 16% for 9 months. Hopefully, we will be crossing 20% reason being that metro areas there are distinct slowdowns. Different regions of course, not only the interest hikes, the investor segment is shying away number 1. Number 2, new projects are not coming particularly in Mumbai. You see similarly Chennai also was like that only. Then we are seeing no new projects are coming. But Delhi again they have different issues. Hopefully with all these elections, etc., over, again it will catch the speed.

Kunal Shah

Okay and how about competition sir. May be definitely the slowdown is there in the industry but in terms of competition is it impacting the growth as such, is that the figures which we are getting?

V. K. Sharma

Well if others are growing faster than us only I will say it is impacting, it is because of the competition. But it is not that others are growing very fast. One of the major factors which we are finding which will put standalone housing companies like us under pressure is the banking. Because for their top-line, necessarily they have to come in this segment. And that will certainly have a stiff competition in Q4 also.

Kunal Shah

Okay. And sir in terms of provisioning now, we are not carrying any excess provisioning as such. The entire thing has been utilized.

V. K. Sharma

Yeah. Already Nationl housing board has given a very conservative norm. So beyond that we don’t require to do anything. Earlier we were doing, we were there with no norms. So beyond that it is not required.

Kunal Shah

Okay. And sir write back on provisioning on the Fix-o-Floaty standard asset, that would be say 1 year post we shift to the floating rate?

V. K. Sharma

Yeah. So those provisions will keep on getting reduced.

Kunal Shah

Okay so that would happen on April 1st?

V. K. Sharma

April onwards.

Kunal Shah

Okay.

V. K. Sharma

So the entire provisions cannot, it will again month – to- month it will come back.

Kunal Shah

Yeah. Sir one last question on this LIC staff loan. Of it Rs1225 crores which we had, there was repayment up to Rs500 crores till September. So how is it the position as on December?

V. K. Sharma

December, it is as it is. December we have not done anything.

Kunal Shah

Okay so this has to be repaid by March for sure?

V. K. Sharma

Not necessary.

Kunal Shah

Not necessary?

V. K. Sharma

Yeah. They need not put date on that.

Kunal Shah

Okay so it is not that by March we have to repay it and there could be pressure on margins on account of this in Q4, so nothing of that sort?

V. K. Sharma

No.

Kunal Shah

Okay sir. One last thing on equity raisings sir

Moderator

I am so sorry to interrupt you Mr. Shah. There are other people also in the question queue. If you may can go back and come back later please.

Kunal Shah

Yeah just one thing on this equity raisings sir.

V. K. Sharma

Still in process now. Already officially we have intimated. The first step will be preference capital from LIC. Then after we take view how to go about it?

Kunal Shah

Any time lines sir?

V. K. Sharma

Time lines we have not put but once we have given the notice, one year is a time line.

Kunal Shah

Okay and quantum?

V. K. Sharma

Quantum we cannot say specifically.

Kunal Shah

Okay sir. Thank you.

V. K. Sharma

Thank you.

Moderator

Thank you. Our next question is from the line of Hiren Dasani from Goldman Sachs, please go ahead.

Hiren Dasani

Thank you. I just wanted 2 data points. One is what is the outstanding 3 year fixed loan which is at 8.9% and what is the outstanding 5 year fixed loan which is at probably 10 odd percent?

V. K. Sharma

Outstanding 3 year fixed is about Rs12,500 crores and then 5 years is Rs10,000 crores plus.

Hiren Dasani

Approximately 10,000 crores.

V. K. Sharma

Yeah.

Hiren Dasani

And this 12,500 crores is at 8.9% right?

V. K. Sharma

Yeah roughly at 8.9%.

Hiren Dasani

Of which you are saying that 9000 will get reprised in FY13?

V. K. Sharma

Yeah that's right.

Hiren Desai

And 10,000 crores would be at approximately what yield sir?

V. K. Sharma

That is, it is 9.75 – 9.85.

Hiren Desai

Okay so now sir if I just do the kind of backward calculation of the non-fixed portion of your individual loan which is on the floating rate basis and you are kind enough to disclose the interest income on the individual loans separately which helps us in analyzing this. So if I do that analysis then the non-fixed book yield comes out to be something like 11.1% or so.

V. K. Sharma

Right.

Hiren Desai

But you are saying it is 11.9.

V. K. Sharma

At present we are charging 11.9%.

Hiren Dasani

For the new guys?

V. K. Sharma

Naturally yeah. Whoever is going in the floating, that is rate is 11.9%. You are getting 11.1 because from earlier floating, some part is PLR minus 350. Some are like that so because different rates are there and it is because of different types of product. So average you are getting 11.1. But whatever view is this thing that is at 11.9.

Hiren Dasani

Okay and sir I mean in the market obviously new loans are available as low as 10.75 also.

V. K. Sharma

They are getting reprised at 12.75.

Hiren Dasani

No I am saying that if you are a customer which will go from 8.9 to 11.9, why wouldn't it go to somebody else at 10.75 – 11% which is why he is getting today floating rate loan. Especially now he doesn't have to pay any prepayment penalty.

V. K. Sharma

Yes it is quite likely.

Hiren Dasani

So in that case would you be able to maintain that 11.9 or you will have to.

V. K. Sharma

It is the other way round also. There is no company in India, no bank also I am using the word which is charging less than 12.75. And we are charging 11.9 only. So even if he goes he knows that after a year or 2 he has to pay more and that's why I mean there are no major shifts rather it is the other way round. People are coming to us only.

Hiren Dasani

Okay and sir on the individual loan disbursements side, the slowdown doesn't it seem little sharper on this quarter compared to even let's say what we were doing in September quarter? I mean what changed so drastically in 3 months?

V. K. Sharma

No I will not say that it is very sharper. But again seasonality is there and then people have gone into wait and watch mode because of very high interest rate. I mean every month it was jacked up. So that has impacted the entire industry. It is not, we are only, it has impacted the overall and then high property prices in Mumbai and Delhi that is another major factor. In Mumbai no new properties are available and the old ready built property, 25% premium they are getting. So, with all these factors have taken the call. But hopefully now that is with the interest rate fall. We are hopeful that it will again turnaround.

Hiren Dasani

Sure sir and lastly in the capital side I know you are not disclosing the numbers but LIC would also get the common equity only right. It won't be preferential, it would be common equity but with a preference share.

V. K. Sharma

LIC will get preference share only. It is not a preference share, it is preferential.

Hiren Dasani

Yeah preferential allotment. Would it be fair to assume that last time you raised about 650 crores. So now with a much bigger size of balance sheet the raise would be at least that or even more?

V. K. Sharma

Let us see. Northward only.

Hiren Dasani

Okay thank you very much.

V. K. Sharma

Thank you.

Moderator

Thank you. Our next question is from the line of Anand Vasudevan from Franklin Templeton, please go ahead.

Anand Vasudevan

Good morning sir.

V. K. Sharma

Good morning Mr. Anand.

Anand Vasudevan

Just a clarification on the prepayment penalty question which we discussed just now. Now if a customer has taken a Fix-o-Floaty loan and the loan now turns on to the floating rate period, then is there no prepayment penalty if he wishes to.

V. K. Sharma

Yeah now prepayment penalty has been waived for all kind of individual loans.

Anand Vasudevan

So even if the loan has been at an easy rate in the beginning period

V. K. Sharma

Yeah that has gone. See our problem is that we operate in a transparent manner. So we have not put anything hidden in that. So we have made it clear that if whoever wants to come welcome, whoever wants to go, free.

Anand Vasudevan

Okay and the other part of the….

V. K. Sharma

I mean if you are visualizing that because he is at 9% and he will go out because he is getting new loan at 10% take for example. He knows that even if he takes on 10% after a year or two he will have to take 12.75 plus. In any other institution preferably he will remain with us only. He will not I mean he will not go out. It has not happened in the past, it will not happen in future also. Though ultimately he will end up paying more anywhere else.

Anand Vasudevan

Right. And also in the NHB requirement, the other part of the requirement was that the pricing on new loans, the new floating rate loans have to match the pricing on the back book. What is the update?

V. K. Sharma

Sudipto will say something about it.

Sudipto Sil

Anand Good morning. Actually as far as the particular other legislation is concerned regarding the similar pricing for different types of loans. Actually we have got one single PLR and all our loans are generally marked with the PLR in a similar manner. Now only when the credit rating is differential. When there is a differential credit rating for the customer, there is a differential pricing. And the same thing continues today also. As of now, the PLR is around 14.4 and all loans will be linked to that particular PLR similar for the same kind of a credit profile.

Anand Vasudevan

That is understood but the way the companies have been mortgaged companies have been operating is depending on market conditions, the spread over PLR changes. When you originate a loan in 1 year versus when you originate the loan at some other point in time. And therefore the rate paid by the customer although it is floating rate can change from time to time.

V. K. Sharma

See Anand there is another thing which probably needs clarification is that as of now today the circular talks about floating rate loans and you have to compare like to like. You have to compare pure floating rate loan with a pure floating rate loan. You cannot compare a pure floating rate loan which was originated in say 2005 with a dual or conglomerate loan which is. That is where there confusion is there because many of the products which have been launched by many players today are combo type products where the pricing is the pricing structure is entirely different.

Anand Vasudevan

So if we talk only about the pure floating rate loan. What is the position of the regulator?

V. K. Sharma

For floating rate loan when they say they should be PLR, which is exactly the practice which we are following and for credit which you have seen, the credit profile being the same, the mark up would be similar which also we are adhering to.

Anand Vasudevan

So do you need to make any adjustments at all to your back book pricing on the existing pure floating rate?

V. K. Sharma

No.

Anand Vasudevan

Okay thank you.

Moderator

Thank you. Our next question is from the line of Dinesh Shah from Reliance Mutual fund. Please go ahead.

Dinesh Shah

Good morning sir. Hello? Good morning sir.

V. K. Sharma

Morning Dinesh.

Dinesh Shah

Sir can you give the current capital adequacy, tier one and overall?

V. K. Sharma

Current Capital adequacy. At present the Tier-1 is 8.6%.

Dinesh Shah

8.6 and overall?

V. K. Sharma

Overall it is 14.5.

Dinesh Shah

14.5%.

V. K. Sharma

Yeah

Dinesh Shah

Okay the other thing is what is the total developer loan portfolio outstanding as of December?

V. K. Sharma

3500 plus. 3534 crores.

Dinesh Shah

Okay so that we plan to take to 10% by end of FY13,

V. K. Sharma

We will have to take it to roughly about 10% successfully.

Dinesh Shah

Okay and my last question is about we are looking at clear signals of interest rate picking out, so may be down the line 6 months interest rate may ease out and we have a large portion of fixed rate portfolio coming for reprising and now we have removed the prepayment penalty clause also. So do we see any pressure on the NIM because many of the customers may not talk of reprising the same?

V. K. Sharma

No I don't know. The whole market dynamics is such that even if customers go out as we have been discussing, they will not be benefited. Normally customer will not like to switch over only for 0.25 or like that even if it comes. Because in the long run he will end up paying more. By and large it will remain static only. Some people will come and some people will go because this kind of portfolio is with all the segments. It's with the bank, it's with other housing finance company. So it will overall the impact will not be there.

Dinesh Shah

Okay because in the last cycle in 2009, the fall in the interest rate, the reduction in the rate by RBI was very sharp relatively. So if that kind of thing is coming in next 9 months.

V. K. Sharma

Then we will reduce. We will also reduce the floating rate.

Dinesh Shah

Okay thank you very much. All the best.

V. K. Sharma

Right.

Moderator

Thank you. Our next question is from the line of Manish Chaudhary from CITI Group, please go ahead.

Manish Chaudhary

Sir just wanted to check one thing. In the opening remark you had mentioned that in December the sanctions and the individual loan growth is pretty strong at about 50% plus growth. The overall quarterly numbers that we see on the individual segments showing nearly about 13% growth, the disbursements about 8% growth. I mean loan growth in individual segments continuous to be high at about 30% plus. So how do you kind of reconcile these numbers overall and I mean do you see sanction growth and disbursement growth in particular moving up?

V. K. Sharma

In last quarter October was below par. That has pulled us strong. That was one factor may be because of which I will say primarily all the festivals during the period or whatever. Particularly in last week in housing yield is very critical so in that sense one can say festival. That has affected us. But by and large certainly the metro areas slowdown is visible.

Manish Chaudhary

So this kind of disbursement growth of around 8-9%, is this likely to continue or do you.

V. K. Sharma

No it will be around 20%.

Manish Chaudhary

20% disbursement growth is likely and that will also partly affecting the growth in metro as well?

V. K. Sharma

Metro we do not visualize growth except in Chennai again Tamil Nadu I will use the word not Chennai, Tamil Nadu the sanctions for development has started. So developers have started floating new schemes. I mean new projects. So there it will pick up. Bangalore has started picking up. But I am not sure about Mumbai and Delhi.

Manish Chaudhary

And sir reminding me in Delhi and Mumbai combined comprise of 25% of your total disbursements?

V. K. Sharma

No it is around 15%.

Manish Chaudhary

It's about 15. Okay so the rest of the country has to grow say about 30% for your overall disbursement to grow at about 20%.

V. K. Sharma

Right. In December we had sanctioned 2900 crores and certainly this because it will push up disbursals in Q4.

Manish Chaudhary

And sir just finally one more thing, in terms of the individual the overall loan yields especially in the individual segment, there was no increase in loan yields say from September quarter to December quarter. Because that you didn't chose to pass on any rate hikes or?

V. K. Sharma

Rate hikes September to December we had passed on one rate hike. October we had passed on the rate hike.

Manish Chaudhary

Because your loan yields on the individual segment are essentially flat.

Sudipto Sil

Manish I will take this query. See actually the loan yield overall did not improve because between September and December the composition of developer loans fell further. As far as the individual loan is concerned we still had some products which we were selling around 10.4% or there abouts which we had the new freedom products which we sold at 10.4% initially because on the disbursements in those products probably the increase in yield did not reflect. Though we had passed 40bps on 1st of October that was basically to compensate whatever input cost had increased in the months of July, August, and September. And further in October the interest cost increased up to the first fortnight of December Okay thank you so much.

Manish Chaudhary

Thank you.

Moderator

Thank you. Our next question is from the line of Vinay Shah from Reliance Mutual funds, please go ahead.

Vinay Shah

Yeah sir this is a follow-up question. You mentioned that total capital adequacy is 14.5%. And Tier-1 is 8.6%. Sir what we understand is Tier-2 capital is generally restricted to 50% of Tier-1 capital for NBFC.

V. K. Sharma

No we do not come under NBFC. See these are different. Like NBFC the Tier-1 itself requirement is 12%.

Vinay Shah

Right sir that is true.

V. K. Sharma

We do not come under it. Our guideline is that 6%, and 6%. 6% is Tier-1 and 6% is Tier-2, total 12%. That is the guideline for HFC.

Vinay Shah

Thank you sir.

V. K. Sharma

Right.

Moderator

Thank you. Our next question is from the line of Mahruk Adajania from Standard Chartered, please go ahead.

Mahruk Adajania

Thanks. Sir some clarification of those 9000 crores of loans that are coming up for repayment that start July is that correct?

V. K. Sharma

Yeah July. Correct. I mean lot will be in July only.

Mahruk Adajania

And sir could you quantify the disbursements under your new dual rate product?

V. K. Sharma

Roughly I can tell you around 4,000 crores.

Mahruk Adajania

4,000 crores on what period?

V. K. Sharma

For Q3.

Mahruk Adajania

And sir other thing I know that a lot had been discussed already on this but still so in terms of disbursement growth why was October so bad and then why was December suddenly so good.

V. K. Sharma

2 reasons are there. As I said that because October was bad so we made more efforts in December and November which gave us the result. October was bad because it ended with two festivals simultaneously. And then the interest rate was going up and up only. So that has started really affecting us. That was the peak I would say. People had gone in wait and watch way. Now with pause the feel good factor has generated so particularly end users have started coming back again.

Mahruk Adajania

Okay sir thank you.

V. K. Sharma

Thank you.

Moderator

Thank you. Our next question is from the line of Ritu Gandhi from Antique Finance, please go ahead.

Ritu Gandhi

Thanks all my questions have been answered.

Moderator

Thank you. Our next question is from the line of Yogesh Kotwani from India Nivesh Securities, please go ahead.

Yogesh Kotwani

Yeah Hi Good morning sir.

V. K. Sharma

Good morning Yogesh.

Yogesh Kotwani

Sir I was just looking for our outstanding borrowings and breakup in terms of banks and NCDs?

V. K. Sharma

Yeah I will give you the break up. Outstanding borrowing as on 31st, our outstanding borrowing are 52,952 crores. And out of that banks have roughly about 30%, NCDs have 58% and then NHB has 3.6%, LIC 1.1%, subordinate debt 5.7% for Tier-2, and deposit 0.6%. Here also this bank part we are trying to reduce because banks naturally the funds have become costlier.

Yogesh Kotwani

Can I have the average cost if possible?

V. K. Sharma

Weighted average cost is 9.66.

Yogesh Kotwani

Okay and also can I have the break up of interest income in the individual loans and project loans if possible.

V. K. Sharma

The interest income in individual is 1,388 crores and 149 crores in project.

Yogesh Kotwani

And vis-à-vis last year same quarter sir?

V. K. Sharma

Last year it was 988 in individual and in project it was 172.

Yogesh Kotwani

Okay great. And what will be the LTV till date.

V. K. Sharma

LTV 56% as on Q3.

Yogesh Kotwani

Alright and what will be the average loan size?

V. K. Sharma

Average loan size is 16 lakhs.

Yogesh Kotwani

Is it incremental?

V. K. Sharma

Incremental it is 16.

Yogesh Kotwani

Alright that’s all sir. Thank you very much.

V. K. Sharma

Thank you sir.

Moderator

Thank you. Our next question is from the lien of Ameya Sathe from JM Financials, please go ahead.

Ameya Sathe

Sir just one question on employee buyout portion. On out of the total 1200 crores, how much of the interest expense has been booked on which part?

Sudipto Sil

Ameya it 500 crores.

Ameya Sathe

Okay and when are we going to book the rest of the interest expense, any plans of that?

Sudipto Sil

There is no specific time line for that.

Ameya Sathe

Okay there is no specific time line. Okay great thank you.

Moderator

Thank you. Our next question is from the line of Raunak Nagda from Value quest research, please go ahead.

Raunak Nagda

Hello? Sir our target for the loan book is to achieve 63,000 crores by March '12. That means our incremental disbursement for 6500 – 7000 crores in March quarter. Sir how confident are we in achieving this because our developer's loan has still not picked up?

V. K. Sharma

It has started picking up and we are sure that may be 1000 crores will be in developers segment and 5000 crores we will be able to do in…..

Raunak Nagda

We were expecting 1000 crore disbursement in Q4?

V. K. Sharma

Certainly. This is one area where we will also have to disburse. For that the demand is tweaked. It is our conscious approach that we are not disbursing otherwise people are ready.

Raunak Nagda

And next year we are targeting roughly 7500 crores totally.

V. K. Sharma

That's right. Now we have put our systems in place. So we can go ahead with a better esteem.

Raunak Nagda

And sir in one of your interviews you had mentioned we will remove all DSAs and original loan only through LIC agent.

V. K. Sharma

No who said.

Raunak Nagda

Sir Economic Times there was an article.

V. K. Sharma

Let me clear myself. We will diversify. Why we will remove DSA. In that many of the LIC agents they have become DSA instead of becoming home loan agents. They have started their company.

Raunak Nagda

Okay so they will continue.

V. K. Sharma

Naturally, they will continue.

Raunak Nagda

And sir what is the incremental yield on assets on cost of deposits?

V. K. Sharma

It is 11.3.

Raunak Nagda

And cost of deposit?

V. K. Sharma

And cost of deposit incremental cost is 10.23.

Raunak Nagda

Incremental spread has come down to 1.07.

V. K. Sharma

Yeah. That is there. Anyway we will go through that. It is seasonal. Year end the results will be better because in current quarter itself I will share with you, we have borrowed roughly about 1700 crores till date and our average borrowing cost is 9.55. So ultimately Q4 borrowing will be at the lower rate.

Raunak Nagda

Okay and sir what NIM are we targeting for Q4?

V. K. Sharma

Q4 we expect around 3%. Q4 3% slightly and it should be better. Because some big projects launched we are going to be, may be some term loans also.

Raunak Nagda

Incremental spread on individual loans is only 1.07.

V. K. Sharma

Yeah, for this you will have to wait for next FY13. FY13 it will automatically increase over 9000 crores is going to be repaid. So it is going to improve and then again borrowing cost will come down. Our borrowing is also at the floating rate only, so that will come down once the RBI starts cutting the rate, 30% borrowing bank. The moment they bring it down our cost of borrowing will come down automatically.

Raunak Nagda

Right, okay sir thanks a lot.

Moderator

Thank you. Our next question is from the line of Umang Shah from Motilal Oswal. Please go ahead.

Umang Shah

Yeah, good morning sir. Just wanted one data point, what would be our total sanctions for the quarter and for the 9 month period?

V. K. Sharma

Quarter is 6000 crore, 9 months period may be some 15000 crore plus

Umang Shah

Okay, so ideally the sanction that has happened during the quarter has all been in the individual segment only?

V. K. Sharma

Yeah, almost all in individual. Projects we have done few only 50 or 60 crores.

Umang Shah

Okay and secondly sir, the liability breakup which you have provided the weighted average cost for that is 9.66 that you gave us?

V. K. Sharma

That's right.

Umang Shah

Okay and 50% of the liabilities would be floating in nature?

V. K. Sharma

Yeah.

Umang Shah

Okay and sir would it be possible to provide individual liability wise cost, I mean for banks, for NCDs?

Sudipto Sil

Yeah, Umang see on the bank it is around 10.9%, for NCD's it is 9.1%, LIC the 6.8%, NHB 3.8%, and deposit is 9.3% and for subordinated debt it is 8.9%, so it comes around 9.66%

Umang Shah

Perfect.

Sudipto Sil

And regarding this fix and floating composition of liabilities, it is roughly around 50 and 50

Umang Shah

Okay and just one last question, I just wanted to check up on this for Q4 sir mentioned the NIM would be around 3%?

Sudipto Sil

See actually we are banking heavily on some developer loans which we believe that will happen in Q4 and 1000 odd crores, 1000 crores if it comes through in Q4 then that will be a big composition to our retail disbursals or overall disbursals that should be around 20% of our total disbursals. And that itself at 500 business points higher yield should help us in to the NIMs considerably inQ4, hopefully that we should get that developer loan disbursals coming through in Q4.

Umang Shah

Right and assuming that even if this 1000 crore disbursals assuming that even if it doesn't come through, we should be able to improve our NIMs to may be around 2.4-2.5 or probably we should expect stable NIMs then?

Sudipto Sil

It should be again the other thing is that regarding the interest cost we have to get a clear signal from Reserve Bank because once that comes through then our incremental cost of funds will drop as sir mentioned for the first 9 months the average cost of incremental borrowing was around 10%, whereas in this month itself it's come down by 50 odd business points, so if trend continues this we should been a better position.

Umang Shah

Okay all right and yeah just a last question, I am sorry if I am being repetitive, for FY13 what was the guidance for margins?

Sudipto Sil

For FY13 again 2.7 that is the normal margin that we like to kind of always get at.

Umang Shah

And this would be including the benefit both on the liability side as well as the asset re-pricing?

Sudipto Sil

Yeah.

Umang Shah

Okay, perfect thank you so much sir.

V. K. Sharma

Thank you.

Moderator

Thank you. Our next question is from the line of Manish Shakula from Deutsche Bank. Please go ahead.

Manish Shukla

Hello, good morning sir, first of all on the developer book as recent as the fourth quarter the displacement was just about 150 crores and for 5 quarters in a row now the book has been shrinking and you expect this to be 10% of your book by about March 2013 back of the envelop calculations shows that it has to more than double from current levels. What I was trying to understand is that what has changed in the environment which gives you more confidence because you rightly said that is the demand but you are not comfortable doing certain kind of loans.

V. K. Sharma

For that you will have to come on and see my IT based business potential portal system. We have on our data bank more than 5000 builders across the country. I will not say large size, medium and sub-large size which we have put it on that and we have developed online system of sanctioning as well as monitoring so that it becomes transparent and the whole process become system oriented. Now we have been able to do it and next financial year it will be on a full fledge in operation like today if we have to fund the builder in Tier-2, Tier-3 cities, a lot of work will have to do because of the manual system, tomorrow it will not be. This is the one area and this is our strength area. Second is that all the big builders who are in queue I mean I will say that 60 to 70, we have been very cautious and rather I will say that we have been slow in funding to them, so there also if we pick up we have the pipeline of roughly about 4000 to 5000 crores. So, overall it is I mean we will be able to cover.

Manish Shukla

If I understand correctly one of the reasons the growth has been slow is that some of the developers are seeking balance sheet funding whereas you are comfortable doing more projects based funding. Is that changing or is likely to change anytime in your assessment?

V. K. Sharma

No.

Manish Shukla

So because that would still put a constraint on the quantum of growth right from the developer book?

Sudipto Sil

No Manish even if it has to be a term loan, the term loan will be specific to the projects. It will not be working capital general pre-funds.

V. K. Sharma

We do not give it.

Sudipto Sil

It will be very-very restricted but generally this construction finance and construction finance only.

Manish Shukla

Okay, the other question is on the re-pricing of assets and liabilities for the next year. You said that about 9000 odd crores will re-price and on today's rate it will move from 8.9 to 11.9%. On the other side what is the kind of savings that you expect from re-pricing of liabilities, I mean whatever liabilities is coming up for renewal in the next financial year based on what you are paying on them today to compare to what is likely?

V. K. Sharma

Send me to RBI then I will be able to reply to you.

Manish Shukla

One more question. Now today we are in environment where we don't have a prepayment penalty and banks are constraint for loan growth. So for the FY13 it's likely that RBI will do some CRR cut and policy rate cuts. So if banks come back aggressively into mortgages and in 2010 we were in a same situation but we had prepayment penalty, today we do not have prepayment penalty. So in that case if the differential is 100 business points for an individual borrower that can be a material?

V. K. Sharma

If you see last 4 years our prepayments have hovered around 7% only even with freeing this prepayment penalty, still as on Q3 it is 6.8 only, this is one aspect. Second aspect I am saying that we are not aggressive; otherwise the flow will be towards our side and not the other way around.

Manish Shukla

No but then aggression would mean I mean banks can price it lower than you, is all I am trying to say because they are constraint for growth?

V. K. Sharma

That would have been so SBI would have not been charged, I should not quote it here in the con call, they are charging 12.75. So a distinct differential is there itself. Not only that our loans are converted from fix to floating, there are other housing companies, there are other banks also and the entire thing becomes just market as a whole as well. So there we are in advantageous position in any case because of cost differential and because of the service quality, both.

Manish Shukla

Just one data point. What is the average tenure of the liabilities?

Sudipto Sil

Around 6 years.

Manish Shukla

Around 6 years. Thank you, there is no more questions.

Moderator

Thank you, we have the last and final question from the line of Jigar Walia from OHM group. Please go ahead.

Jigar Walia

Sir just wanted to know do we primarily sell new Advantage-5 or we also sell Freedom.

V. K. Sharma

No, I mean we have three products at present; Freedom, New Freedom, and Advantage-5. All 3 are almost I mean equal, almost equal. Freedom is also a roughly about 20% of the composition of incremental.

Jigar Walia

Okay and sir you have mentioned around 4000 crore would have come from the New Advantage dual product in this quarter, so much of it has come in….

V. K. Sharma

No, I mean there are two, one is 3 years, and one is 5 years. These 2 constitutes roughly about 4000 crores, but we have now roughly about 6000 crores

Jigar Walia

Okay sir, just wanted to understand that the basically the interest rate on Freedom also which would be your PLR rate let's say around 350 bps that would actually be lower than the fix rate right now and why would people lock-in 3 year and 5 year fix rates when the interest cycles are peaking? So that's been one of the reasons for the slower growth in the quarter?

V. K. Sharma

No it's not that. The product we cannot do the reason. If people do not want this then they could have gone to that fixed rate but again I mean you rephrase your question then, let me understand it.

Jigar Walia

A bigger percentage of the growth has come in 3 year, 5 year fix rate, incremental which is the new product. The new fix rate product 3year, 5 year, we have launched probably towards the close of the October, November**.** One thing is very clear the interest cycles have peaked then it will go down. So why would a costumer want to lock-in for 3 year, 5 year at a higher fix rate and why not choose Freedom floating product even that rate is much lower assuming it is PLR less 3.5%, it is lower even then the fix rate or comparable may be?

V. K. Sharma

Yeah, that's right it will be comparable.

Jigar Walia

It will be comparable?

V. K. Sharma

Yeah.

Jigar Walia

Then a person will certainly be choosing Freedom in something like that, so we see going ahead…

V. K. Sharma

Basically one thing you will have to understand, our products this 3 years, 5 years they are targeted to salary in the summer particularly. They do not want disturbance after taking the first loan for next 3 to 5 years because of the their salary they stretch themselves maximum, that's the reason why it's popular even if the higher interest rate people will buy this only, that is the reason.

Jigar Walia

Okay and sir want to know at the moment currently, what percentage of our assets would be floating?

V. K. Sharma

50%.

Jigar Walia

50%, not the liabilities but assets?

V. K. Sharma

Yeah, 50% is floating and 50% is….

Jigar Walia

Which is the same for liabilities?

V. K. Sharma

Liabilities also.

Jigar Walia

And sir if you can give an indication what would be this fix-floating percentage for assets and liabilities for FY13?

V. K. Sharma

FY13 is floating, that assets floating will be more and liabilities floating will be slightly less, reason being because banks have gone very high in their base rate so we have reduced and prepaid many of the bank loans. Naturally, the percentage has come down. If you see Q2, Q3 it has come down. So assets floating will go up, liability floating will slightly come down.

Jigar Walia

So can we assume around 10% shift is there.

V. K. Sharma

Yeah.

Jigar Walia

So 40-60, 60-40.

V. K. Sharma

Quite likely.

Jigar Walia

Sir what would be your targeted borrowings for Q4?

V. K. Sharma

We had ask for about 6000 to 7000 crore.

Jigar Walia

6000 to 7000 crore will be the increase.

V. K. Sharma

Already roughly about 2000 crore we have done in January.

Jigar Walia

Okay, this will come at around 10.3% or something?

V. K. Sharma

No 9.55%, just now we have told that our January borrowing average cost is 9.55.

Jigar Walia

So this is mainly through which form sir?

V. K. Sharma

Mainly through debentures

Jigar Walia

Okay, thank you sir, thank you very much sir.

Moderator

Thank you as that was the last question; I would now like to hand over the floor to Mr. Kashyap Jhaveri of Emkay Global for closing comments. Please go ahead sir

Kashyap Jhaveri

On behalf of Emkay Global, I would once again like to thank management of LIC Housing Finance for giving us this opportunity to host the call. Thank you all the participants for joining us today. Have a great day.

V. K. Sharma

Thank you Kashyap.

Moderator

Thank you so much. On behalf of Emkay Global financial services that concludes this conference and thank you for joining us. You may now disconnect your lines. Thank you.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

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