LIC Housing Finance Ltd

Conference Call Transcript

24 January, 2011

Moderator

Ladies and gentlemen good morning and welcome to the Q3 FY11 post results conference call of LIC Housing Finance hosted by Emkay Global Financial Services. We have with us today Mr. V.K. Sharma, CEO and Director of LIC Housing Finance. 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. Should you need any assistance during this conference, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anish Damania, Head of Equities, Emkay Global. Thank you and over to you sir.

Anish Damania

Hello every one, thank you for joining us today. We thank Mr. V.K. Sharma, CEO and Direction, LIC Housing Finance for hosting this call and giving us an opportunity to host this call. I would now like to handover the call to Mr. Sharma. Over to you sir.

V.K. Sharma

Good morning to everybody. This is my first earning call in which I am interacting with all of you. Welcome to LIC Housing Finance.

To give a brief overview of the quarter as far as business operations are concerned, Q3 had been extremely good especially in retail segment. For the quarter, the growth rates have been 28% both sanctions and disbursements and we are primarily due to strong growth in the retail segment which grew at 90% and 41% respectively. The month of December was very crucial for us. We continued our strong business growth with loan sanctions clocking 64% growth in retail segment in Month of December. In recent days there have been a lot of concerns from various stake holders regarding the growth prospects and the future course of the organization.

As assured earlier, we have been able to dispel such concerns by showing a strong growth of 64% in retail sanctions and 33% in retail disbursements for the month of December which should be amongst the best in the industry. As far as NIM and spreads are concerned, this quarter has witnessed tight liquidity which has resulted in higher interest cost in the system with borrowing cost going up quite significantly, we have also witnessed rise in our average cost of funds to 8.12%. Across the industry, retail lenders have increased their lending rates as well. We are being one of the last one's to increase the rates and have ensured that the increases are not very steep. At the same time to effective liability management and fund raising at competitive rates, we have been able to maintain the spread at 2.09% and the NIMS at 3.14% as of the third quarter. We believe that the full year spread and NIMS should also be well above our targeted level. We are continuously monitoring the situation on the cost side and we will intervene where ever prudent keeping the best interest of all stake holders in mind. Intervention could be in the nature of modification, withdrawal, repricing of current product, offering of the company or in the way of introduction of new products. It may be mentioned here that on asset side more than 60% are in floating rates whereas on the liability side, we have more than 55% liabilities fixed giving us an advantage in times of rising interest rates. As far as assets quality is concerned, we have already come below the March 2010 figure. We continue to be the best in the industry with gross NPAs at 0.67% as compared to 1.44% in the corresponding period of the last year and we are striving to reduce it further in the last quarter of the year. The assets quality in the developer loan segment continues to be very good at 0.08% gross NPA, developer loans are backed by security cover of over two times. There have been recent NHB guidelines requiring higher provisioning for some category of the loans. We have sought some clarifications from our regulator pending NHB clarification, the company has made a provision of 229.79 Crores on loans which was under the fixed cum floating rates. This has resulted into operation profits for the quarter being lower by 234.92 Crores.

Thank you very much. Any questions, Mr. Damania can be coordinating.

Moderator

Ladies and gentleman, we will now begin with the question and answer session. At this time, if you would like to ask a question, you may please enter * followed by 1 on your touch tone telephone. Participants are requested to use only handsets while asking a question. Our first question comes from the line of Vikram Mahajan from Bay Capital, please go ahead.

Vikram Mahajan

As you mentioned that they have little impact due to excess provisioning under dual rate scheme, if you could just throw more light on what is the government's stance is.

V.K. Sharma

See we have one product, we call it as Advantage 5, where in first five years the interest rates are fixed and after that it is floating. It is not what we call teaser loan scheme. So once this is taken out, the provisioning required will be very minimal.

Vikram Mahajan

Sir as you mentioned that you are not clear on whether the dual rate scheme requires this excess provisioning from here on, so this is one time prudent provisioning that you have done and going forward you will see further clarification.

V.K. Sharma

Yeah that is right. We have done it to improve the confidence of our investors as well as the market and regulator.

Vikram Mahajan

Okay and can you just clarify more on your sale of shares from your LIC AMC to Nomura Asset Management?

V.K. Sharma

Yeah, we had originally 39.9% stake, 39.3% stake in LIC Mutual Fund, out of that we have sold 17.3% to Nomura. It has been sold at a substantial premium obviously and we have got 136 Crores plus from them which we have put it as income from sale of investments.

Vikram Mahajan

Sir, what was the rationale behind the sale and going forward.

V.K. Sharma

Because we get our LIC Mutual Fund has wanted to go for a strategic aligns with Nomura to increase their I will say business and say technology all other things.

Vikram Mahajan

If you can just clarify on the synergy that you are looking forward to through this joint venture.

V.K. Sharma

This will help expanding the operations of LIC Mutual Funds and we have still 20% stake with them, so in future, we are expecting that it will benefit us substantially.

Vikram Mahajan

Alright, thank you so much for the time sir.

Moderator

Our next question is from the line of Rohan Juneja from Front Point, please go ahead.

Rohan Juneja

As mentioned your press release, your sanctions and your developer portfolio were much lower this quarter but you all did mention you all plan to resume it Q3, can you just throw some color on that and the second question is you mentioned on your remarks that December was a very strong month for retail mortgages , however, you know it seems from you know the real estate players that volumes have slowed down a good amount especially in the metro cities, sir can you tell us where you are seeing this volume coming from.

V.K. Sharma

The first question is regarding that developer. For obvious reasons we had slowed down in the month of December, now we have gone through the primary reason I will say that after taking over I wanted to have a relook myself and now after this quarter result, we are making it I mean we are going normal, of course, because the concerns of the developers also is required to be addressed. Primarily three category of cases are there, one where we have part disbursed the loan, another where we have sanctioned and not disbursed but we are holding their papers and then all other cases. So this Q4, we will be addressing all these issues and we will be going ahead. So, I beg you pardon what was the second question.

Rohan Juneja

The second question was you know you mention that December was a very strong month for your.

V.K. Sharma

See our strong area of business is I will say Chennai, Bangalore, Hyderabad and fast growth we are witnessing in our central region what we call that UP and MP area. May be, I will not say that metro, metro has maintained it but the growth is coming from down also, because need still exists.

Rohan Juneja

Okay, understood, thank you.

Moderator

Thank you. Our next question is from the line of Vikas Garg from Fidelity Mutual Fund, please go ahead.

Vikas Garg

I have a broad question for you that is that you have taken over the charge as the new CEO of the company, do you think there would be any kind of a key changes that needs to be brought in the company either in the management or at the strategy level or this will just be at the business side as usual going forward.

V.K. Sharma

See normally, any changes we do at end of the year. So at present, I do not foresee except minor adjustments if it is required, that too for the purpose of looking Q4 as a very aggressive quarter. Otherwise, we do not foresee any changes because there was not a major issue on the organization side.

Vikas Garg

Okay, so we do not see any changes in the top management on the one who was operating and managing the show on the ground level nor we see any kind of a change on the strategy also going forward we will see some kind of a mix between retail loans and the developer loans.

V.K. Sharma

Right because that we will try to keep it at the same level between 11 and 12% that will be same.

Vikas Garg

Okay, thank you very much.

Moderator

Thank you. Our next question is from the line of Amit Premchandani from UTI Mutual Fund, please go ahead.

Amit Premchandani

Just a question on margins or spread, I do not know whether it has been already addressed. Quarter-on-quarter margins have gone up on a 20 basis points while the spreads are down 5 basis points and also incremental spreads are down around 40 to 50 basis points. Can you just explain how this variance in margins and spreads.

V.K. Sharma

Yeah, Sudipto will reply it to you.

Sudipto Sil

Yeah, Amit, actually what you have observed is correct. The NIMs have gone up from 2.93 sequentially to 3.14 up by around 21 basis points but the spread in fact the way we calculate spreads is the average cost of fund on the reporting date that is around December 31, so towards the end of the year, if there has been any increase in cost of funds, it will probably reflect the higher cost of fund resulting in a lower spread whereas the NIM the way it is calculated, it is actually the interest earned over a period of time in this case overall period of a quarter, so that is the reason why you are probably seeing this aberration. Number two is that with respect to your incremental spreads which you have said has witnessed a drop actually if you would have noted we have increased our rates on the existing book as well as on the new business for the new loans by around 50 basis points to 85 basis points on January 1, 2011, and those have not been accounted for at the time of calculating the spreads on December 31, 2010, so even as we speak the spreads in January are probably closer to 2.

Amit Premchandani

Yeah thanks.

Moderator

Thank you. Our next question is from the line of Ramnath V from Birla SunLife. Please go ahead

Ramnath V.

Sir I just wanted to understand just one particular statistic, this is based on the project loans that you gave, how much of the same projects are funded on the residential side by you sir.

V.K. Sharma

Do I understand that if I have given the project loan to a particular developer, how many retail loans we have sanctioned in the same project?

Ramnath V.

Correct sir.

V.K. Sharma

It is very minimal. We have gone through that thing. In the same project, it is less than 5%. Because both are independent activities and based on case to case basis.

Ramnath V.

Okay, sir I just wanted to understand this particular thing from your own side from the system perspective that when you are giving loans on the project side when you are saying that builder is approved and you are willing to give him loans for the extend retail loans to the project, how are these two things actually separate and how do you go about that particular thing sir.

V.K. Sharma

No, see this approval of builder has nothing to do with the project loan sanction.

Ramnath V.

Sure, and that is an entirely that particular thing when you advertise.

V.K. Sharma

Yeah, so approval of builder will be done looking into the title of the paper and all other details that retail part will see, then they will say that yes in this project, if any body wants the retail loans, it can be given, why we do that approval is because it becomes easier for the customer to prepare papers.

Ramnath V.

Sir, I understood that. I just wanted to understand the cheques and balances in the system so that both these teams the project team which is working on a separate project and the retail team which is working on basically seeing if all the legal papers are put in place and still are in place and stuff like that, what are the cheques and balances to see that.

V.K. Sharma

Our total number of developer loan is I mean far and few as compared to the retails which we give to the apartments in different approved projects. It is hardly 85 to 86 project loans we have given. So to that extent that is there. Besides that we have a mechanism to know that whether the entire, I mean the loan is going in retail in the same project, that also we see it and most of the builders because we have only part financed it, so others are the banks and others they are more aggressive.

Ramnath V.

Sure and one last question, one gentleman was asking in terms of the on an incremental basis you said that most of the business is coming from Bangalore and Hyderabad and Madras and all these places, what is the ticket size in these loans now sir.

V.K. Sharma

It is 15 to 16 Lakhs.

Ramnath V.

Okay, so the number of loans that you are giving as it increase, will that be a fair assessment.

V.K. Sharma

But number of loans has also increased substantially. You want the number; I will be able to give you.

Ramnath V.

Sure sir, if you can just help me with that.

V.K. Sharma

Number of 90 to 94,000. 94,710 loans we have sanctioned till date as against 71,126.

Ramnath V.

Okay sir but then if I look at the average size should have gone up slightly because of…

V.K. Sharma

Slightly yeah, marginally it has gone up, 15.5-16 lakhs it is. It is 15.46, last year it was 13.89, it has gone up to 15.46.

Ramnath V.

Yet only on the incremental not on the average.

V.K. Sharma

Incremental.

Ramnath V.

Okay fine sir. I think I will just do some calculation and I will get back if there are any requirements.

V.K. Sharma

Right.

Ramnath V.

Thank you sir, thank you so much.

Moderator

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

Nishid Shah

I just wanted to have some color on the direction of the company is taking in terms of fixed and the floating rates and especially in relation to the incremental spreads as it appears from your announcement yesterday that incremental spreads will come down to something like 1.65% and if you continue aggressively on our fixed loans which are fixed for almost five year period in a rising interest rate scenario, how do you protect yourself one that last quarter you had a 50 bps rise in the floating rate loans and then as of January 1, you have taken another 50 bps rise in the floating rate launch, would it be fair to say that actually the floating rate borrows are actually compensating for some kind of loss that.

V.K. Sharma

No. We have explained even to regulator, even our fixed rate they are also profitable loan, otherwise we would not have said that it is not a teaser loan.

Nishid Shah

Sir what I am trying to understand is how…

V.K. Sharma

How we are going to address it.

Nishid Shah

Yeah, if you can please explain that.

V.K. Sharma

See one very effective help will come from release of developers loans which were held up, that itself will give a good cushion because our you must have noticed that our share has gone down, it was 11 point something, now it has gone down to 10, roughly more than 1% it has gone down. See, it is released and this will help in maintaining because it is a substantial amount in number term also.

Nishid Shah

And would it be fair to say that the rate interest rates on the developer loans or project loans is substantially higher than the rate that you charge on the fixed or a floating rate.

V.K. Sharma

Certainly, 400 basis points more. So that will take care to some extent then again we have said that we will review it if like our regulator says that no this five years advance is five but we say five year 6 and then floating they say that no no it is a teaser loan, though we are I mean we are questioning it, because all way along it has been treated as a non teaser but if they say then we will address it. I said earlier that if it is required then we will modify it or we will introduce new product.

Nishid Shah

How much of your retail loans today is fixed and how much of it is on a floating rate loans.

V.K. Sharma

It is 60% and 40%.

Nishid Shah

60% is fixed.

V.K. Sharma

60 is floating, 40 is fixed.

Nishid Shah

40% is of the incremental.

V.K. Sharma

Yeah of the total book.

Nishid Shah

Of the total book, and if you start the developer funding then how would the ratio split between floating, fixed and the developer loans.

Sudipto Sil

Hi, as far as the developer loans are concerned all around floating rates so even on the current portfolio if we include the developer loans then the floating fixed mix becomes 65 to 35 on the asset side, 60 and 40 of course is on the retail side purely, now this is just assuming than the current developer portfolio is considered. Now as far as the liabilities are concerned, 55% of the liabilities are fixed and 45 around floating, so there is some sort of I would say protection of cushion in times of increasing interest rate scenario since we have 65 to 35 on the asset side and on the liability side 55.

Nishid Shah

Okay but tell me on the spread like third quarter you had a very good spread, would it be fair to say that FY12 looking at the way things are going around, you will be able to maintain or improve on the spreads in FY12?

V.K. Sharma

We would say that we will maintain. Definitely that is what we have been doing even in times of tight liquidity and increasing interest rate scenarios, we have been able to maintain and protect the spreads and definitely that will be the objective in FY12 and going forward also.

Nishid Shah

Okay and how about the concern on this incremental aggressive growth, how are you ensuring the quality of the growth and that none of these turns into bad loans.

V.K. Sharma

Our NPAs are only 0.67% and it has gone down.

Nishid Shah

Sir what are the checks and balances that you do if you can throw some light to ensure that your NPAs are going to be under control.

Sudipto Sil

See actually not fully getting into the details but actually it has to do a lot with selection of the right credit prospects that is the first line of defense, the second line of defense is the elaborate systems and processes that we have put in place over several years and which we have proved that has been helping our credit quality and thirdly most importantly is a very efficient and affective recovery mechanism. These are the three lines of defense which have ensured a very good credit quality which has been reflected in the numbers also over the last six years and seventh year running.

Nishid Shah

Yeah I think, Sudipto could you throw some light on what is driving the substantial growth for you even compared to your peers you know, I mean some of the housing finance the large companies, what is driving substantial growth for you.

Sudipto Sil

See actually again here also there is a combination of various things, one is the network that we have I would say most important is the brand this is financial product so credibility trust on these things matter and it is a long term contract, it is not a 2 year or 3 year relationship with the customer itself, a long-term contract so these things matter very much, secondly is our distribution capacities and thirdly is the product designing and product pricing and of course needless to say servicing.

Nishid Shah

Tier-1 capital adequacy has substantially come down in this quarter, I think if we have to correct it is 8.5% now, what brought it down substantially, is it just the aggressive...

Sudipto Sil

Actually the capital adequacy numbers that we had given out they were just approximated numbers and we have yet to issue the audited numbers. The third quarter profits are not been included here, so in the third quarter profits are included probably higher.

Nishid Shah

But would you have any capital raising plan in the next 12 months.

Sudipto Sil

Next 12 months, we will address this issue in next fiscal only, depending upon our growth and requirement, we will address this issue on next fiscal.

Nishid Shah

Okay, all the best and thank you very much.

Moderator

Thank you, our next question comes from the line of Hiren Dasani of Goldman Sacs please go ahead.

Hiren Dasani

Just couple of data points, what is the outstanding loan book in three year and five year product now.

Sudipto Sil

Three year product is slightly above 10,500, closer to 11,000, that is called the fixed or floating which we have discontinued and the advantage five product is slightly less than 5000 Crores.

Hiren Dasani

Lets say about 4500 complete.

Sudipto Sil

Around 4800 to be closer.

Hiren Dasani

Okay and when you say the incremental spreads 1.65% are they for the quarter or for the 9 month.

Sudipto Sil

No actually it is the spread is on a year end date that is what we have been clarifying in the earlier part of the call that it is spread as calculated on that particular date that is on the reporting date of December 31.

Hiren Dasani

Just to understand on that date what is the lending rate and what is the incremental yield and incremental cost.

Sudipto Sil

That is correct.

Hiren Dasani

It is not average for the 9 months, what is the incremental.

Sudipto Sil

Absolutely not.

Hiren Dasani

Okay, you said that this product can be modified or you know it introduced the new projects, sir are you basically saying that if it is classified as teaser loan then essentially what we have to do is that we have to make incremental 2% provision, right, incrementally also for this kind of product, so in that case it may have to be modified, and any clarification on whether we have to maintain this 25 basis point standard asset provision as well.

Sudipto Sil

No as of now we have not got any clarification in fact that was Reserve Banks guideline for NBFCs for all categories of assets, they have not mentioned anything specific for housing loans, so as of now, we do not think it is applicable for housing finance company which is regulated by NHB.

Hiren Dasani

Sir, would it be fair to assume that as in the past NHB will probably follow RBI.

Sudipto Sil

No, not necessarily Hiren because…

V.K. Sharma

There had been suite the guidelines immediately. Actually that is not correct because there had been instances where Reserve Bank has introduced guidelines for higher capital adequacy ratio for NBFC but they have not been followed by NHB, so there have been instances where it has not been followed in total by NHB but having said that we will await that is the reason no clarification of further guidelines.

Hiren Dasani

Do we keep any standard asset provision other than this 2% for the…..

Sudipto Sil

10 basis points on retail standard assets and 90 basis points on the nonretail segment.

Hiren Dasani

That we do it as an appropriation of the profits right? It is not part of the P&L.

Sudipto Sil

No, it is through the P&L only.

Hiren Dasani

Okay, great, thank you.

Moderator

Thank you. Our next question comes from the line of Vivek Verma from Edelweiss, please go ahead.

Kunal

This is Kunal. Yeah, just taking forward that question on standard asset provisioning of the 10 bps on retail and 90 bps on commercial, since we have mentioned that we have utilized almost 90 to 100 crores to make the provisioning towards 2%, so is it that now this standard asset provisioning has been utilized towards our 2% requirement on these special loans.

V.K. Sharma

Yes.

Kunal

Yeah, so as of now, I do not think that we would be carrying anything say 10 bps on retail standard or 90 bps in this quarter we have utilized that.

V.K. Sharma

Yeah 10 bps on standard assets.

Kunal

Okay, so we have utilized that entire thing. Okay and the other question is would it be safe to assume that if I am running at the incremental spreads of 1.65% and with say most of the loans being under Advantage 5 in Q3 and I am also providing say 2% on that, so at the ROA level does that seem to be incurring much lower or say at the negative ROA on this particular scheme if I include this 2% kind of provisioning.

Sudipto Sil

No actually you have to look at it separately Kunal, because if you are looking at the incremental spreads only on the new business on advantage side, we have increased the rates between 50 to 85 basis points with effect from January 1, 2011, so whatever spreads we were generating on that business has gone up by 50 to 85 basis points.

Kunal

Yeah, so now what would be the rates like on an average, what we will be doing on Advantage 5?

Sudipto Sil

It will be closer to 10.

Kunal

It would be closer to 10 and our incremental as we can see over here the incremental cost of funds they say 8.3, the way we ended in December, okay, so on that it was approximately say 1.7% kind of spread which we were making, okay, and over and above that we are making 2% kind of provisioning.

Sudipto Sil

So that provisioning was as of December 31, what our chief just mentioned is that we are awaiting further clarity from the regulators and once that clarity comes in either which way then we will take a view.

Kunal

Okay, so apart from this suppose if this on the standard asset side if nothing comes up and say it is accepted that the teasers loans are still not say our Advantage 5 is not a teaser loan or something then what is our view with respect to Advantage 5 considering the rates moving up and most of the guys have also withdrawn from the market their special schemes, so what would be our outlook, would be we be continuing with this Advantage 5 then.

Sudipto Sil

That also has to be kept the overall market demand, customer requirement, cost of fund, these things have to be kept in mind but we will not jump on it as of now, we will wait for the clarity to emerge and then we will take an appropriate stand.

Kunal

Okay, thank you.

Moderator

Thank you. Our next question is from the line of Venkatesh Sanjeevi from ICICI Prudential, please go ahead.

Venkatesh Sanjeevi

Just a basic question on the trends you are seeing now with the higher rates of interest right now. Are you seeing any increase in repayments and prepayment by any chance?

V.K. Sharma

No, last year it was 8.3%, before that FY09 and it was 7.7%, it is still for 9 months we have seen it is 7.5% only.

Venkatesh Sanjeevi

Just 7.5% sir.

V.K. Sharma

Yeah prepayment. So prepayment say it is not that substantial prepayment has come or it is coming.

Venkatesh Sanjeevi

Okay fine right, thanks.

Moderator

Thank you. The next question is from the line of Ajitesh Nair of UBS, please go ahead.

Ajitesh Nair

Sir just a couple of questions, one is how much do you think you can hike PLR further before it starts impacting demand or may be repayments.

V.K. Sharma

1% margin we already have because if you see the market, there are companies who have already kept 15%.

Ajitesh Nair

Right and sir how much is…..

V.K. Sharma

Or anything any technical you want to understand then Sudipto will tell you.

Sudipto Sil

Ajit if you just go back to say end 2008-2009 scenario, the interest rates in the system was in the region of around 11.5 to 12%, we are still quite away from that and in those days also, LIC Housing had delivered a disbursement growth of more than 25%, situation is definitely not a 2008 or 2009 kind of a scenario, so we believe that this is a user driven demand and to that extent the interest rates do not hurt to that extent.

Ajitesh Nair

Okay, so you said we are still some time away before we hit the tolerance.

Sudipto Sil

Definite yes.

Ajitesh Nair

Okay, also sir just wanted to understand have we hiked the PLR in January or we have the changed rates on fixed Advantage 5.

V.K. Sharma

We have done both in from January 1.

Ajitesh Nair

How much are we PLR basis.

V.K. Sharma

PLR we have 50 basis points.

Ajitesh Nair

Okay and sir finally on how much is the outstanding approvals which are yet to be disbursed.

V.K. Sharma

2000 to 3000 Crores.

Ajitesh Nair

Okay got that, thank you sir.

Moderator

Thank you. The next question is from the line of Manish Shukla of Deutsche Bank, please go ahead.

Manish Shukla

You have said, PLR was high by about 50 basis points, so what will be a new floating rate loan rate for now.

V.K. Sharma

Yeah, it will start with 10.75%.

Manish Shukla

Okay and Advantage 5 is close to 10%.

V.K. Sharma

Right.

Manish Shukla

Okay, can you tell me the risk-weighted assets number at the end of quarter?

Sudipto Sil

See actually as I mentioned we are still in the process of giving out the capital adequacy numbers. We have just some approximated numbers; we are working on it, in a couple of days that will be shared.

Manish Shukla

Okay fine, the rest questions are answered. Thank you.

Moderator

Thank you. Our next question is from the line of Nishit Dholakia from Birla SunLife Mutual Fund, please go ahead.

Nishit Dholakia

Yes sir, I just wanted to know what is the cummulative standard provision that we are now carrying in the book.

Sudipto Sil

It is around 464 Crores Nishit, this is Sudipto.

Nishit Dholakia

Okay thanks Sudipto.

Moderator

Thank you. Our next question is from the line of Megha Gupta from Birla SunLife, please go ahead.

Megha Gupta

My question was on LIC's share holding now, do the extend guidelines and framework applied where as 33% remains the minimum share holding that LIC would maintain at all points of time and 49% remains the maximum or are we in discussions with LIC regarding any changes in the same.

V.K. Sharma

No that our managing director also just said they will make any change in that.

Megha Gupta

It remains within this band.

V.K. Sharma

That is right.

Megha Gupta

Any immediate near term discussions with LIC regarding increase in the stake from the current level.

V.K. Sharma

Not required. At this stage we are not taking any view on this.

Megha Gupta

Alright. Thank you so much.

Moderator

Thank you. Our next question is from the line of Neha Agarwal from Goldman Sachs. Please go ahead.

Neha Agarwal:

Just wanted to understand what's the average duration on our liability side?

Sudipto Sil

It is a five-year.

Neha Agarwal

So sir, at what point in time, would our cost of funds on an average basis increase given, what's happening to the incremental cost of borrowing?

Sudipto Sil

Neha this is Sudipto. Actually if you look at it, we keep on borrowing throughout the year. At every point in time if there is an increase in the borrowing cost, there will obviously be some kind of increase in the average cost.

Neha Agarwal

What I am trying to understand is, would there be a point where the average cost of fund would reprise at a faster rate, given what's happening on an incremental basis. So if I understand, you are currently lending at about 10% on an incremental basis and borrowing at about 9.25 % and when is it that it starts to hurt on average basis, given what is happening to incremental cost?

Sudipto Sil

I will answer that question also, because if you look at the incremental borrowings for a year, it is roughly say around 15 to 20%, on a net basis to the balance sheet. So there will always be a little bit of trickling efforts, there will not be any major kind of spikes in the borrowing cost. The rate at which the cost of fund is increasing in the system, we believe that whatever increase in cost of fund happens that will continue to happen on a gradual basis. In fact if you have seen over the last quarter it has gone up from 7.91 to 8.12, the average cost of fund between September 30th and December 31st. Within that period of time the rates in the wholesale market had gone up by more than 100 basis points.

Neha Agarwal

And any sense on the competitive scenario with State Bank of India still sticking 8.5% in year 1. Are we seeing concern on growth given that?

Sudipto Sil

Yeah, we have grown at for the quarter our retail sanctions have grown by 90%. For the month of December, which is just last month, our retail sanctions have grown by 60%, definitely those will be best in the market figure, so that itself answers your question.

V.K. Sharma

We are not going to compete with the State Bank of India. They have a different....

Neha Agarwal

Is it a different segment sir.

V.K. Sharma

Yeah, not only segment, they have a different way of business.

Neha Agarwal

Because I would think if I was trying to buy a house, I would be very price sensitive in terms of the rate that I am getting.

V.K. Sharma

No, I mean, now that market has changed in India, even in housing. Housing is also becoming like a consumer market, so people are not only price-sensitive, people place sensitive also. Servicing, relationship all these factors take into account, otherwise we would not have been able to show the growth, used advertisements and other thing. Ultimately what happens that where the customer ends up, that they have word to mouth.

Neha Agarwal

Sir, what growth are you looking for in FY12?

V.K. Sharma:

30% we are targeting, that we have done from the beginning, before also very tried to keep it on this number.

Neha Agarwal

Thank you sir.

Moderator

Thank you. Our next question comes from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.

Shrey Loonker

Sir, just wanted to get a sense, one is, if on the incremental basis, what percentage of your incremental disbursement of individuals are coming into Advantage 5 and normal floating, if you could give that mix?

V.K. Sharma

It is 70, 30, I think.

Shrey Loonker

Sir, 70% is coming in Advantage 5. And what could be a top three geographies in terms of historically that are your strong footholds?

V.K. Sharma

See, in volume I will say that volume and growth both, support is coming from the south, that is, Chennai, Bangalore segment, and very fast-growing area is a central region that is Lucknow and Bhopal.

Shrey Loonker

Right, on an outstanding basis, what will be your large top three geographies, sir?

V.K. Sharma

Outstanding basis top three geographies will be, I will say Bangalore, Chennai, Hyderabad and Mumbai, these are the four major….

Shrey Loonker

Okay. Thank you.

Moderator

Thank you. Our next question comes from the line of Amit Ganatra of Religare AMC. Please go ahead.

Amit Ganatra

Sir, what's the total size of the balance sheet and the total borrowing number?

Sudipto Sil

Total borrowing is roughly 42,075 crores, and the total loan assets are 46,380 crores. Total assets will be closer to around 47,000 crores. We do not have any other major assets apart from liquid investments and cash.

Amit Ganatra

And also looking from a longer-term perspective, if I look at, mix between your retail and corporate bodies or this project finance in FY07 it was 3%. It's basically kept on going up and now it is 11% or maybe previous quarter it was 11, now it was 10.5. So, last so many years if you look at the rates, it has not gone up significantly. So it seems that, obviously that is a high-yielding product. So, this is the segment basically which is compensating in that sense or enabling you to maintain the spirit. So incrementally next, if I take a longer-term view, will this keep on going up, developer portfolio as a percentage of total portfolio?

V.K. Sharma

We will keep it between 11-12%, that is what we're keeping focus at present.

Amit Ganatra

Because two years ago I remember clearly, the company was talking about keeping it between 7 to 8% or then basically the bar went up, and then it was 10%. Now once again it has gone up…

V.K. Sharma

See typically what happens, that it depends upon the market demand. Market now particularly in the city market is driven towards this apartments and builders related retail segments. So thing was happening, that particular builder gets tied up with one of the company. So that has created a segment, wherein we have also to come.

Amit Ganatra

Agreed, but anyways see, it does not help in terms of your retail disbursements, as you mentioned in one of the earlier questions that only 5% of the… I mean, any project that you are financing, you don't basically yet do 100% of the retail lending….

V.K. Sharma

But we have to keep our presence that is the primary thing.

Amit Ganatra

But from an incremental basis just to understand that now you are talking about 12% but is it possible the next year basically you raise it to say around 15% or so?

V.K. Sharma

No, no. I'm not sure about it, that we will be going that high.

Amit Ganatra

What if the liquidity situation remains tight and spreads basically contract….

V.K. Sharma

That is one area. Again what is happening in this real estate sector, is itself is a concern. Looking to that 11%-12% it is very prudent.

Amit Ganatra

So you are saying that at any point of time, it will not go beyond 12%.

V.K. Sharma

And our retail growth is also equally fast. In retail if we are going by 30%, even maintaining 11% you will have to go there also by 30%.

Amit Ganatra

Right. No, retail growth anyways is very much evident, but that portfolio basically helps you to manage the overall spread in the portfolio and the overall ROAs for the company.

V.K. Sharma

Yeah. That you are right.

Amit Ganatra

From that perspective, that portfolio is important for you. What I'm trying to understand is that, at any point of time, so basically you are saying that it should not exceed more than 12%.

V.K. Sharma

No, no. It is not like that, the view will be taken depending upon the economic situation. Then again the need because builder has to come forward for the loans. So it can go down, it can go up and what I'm trying to tell that, we will not go very aggressive on that side, just to increase the margin, though our strength is retail only.

Amit Ganatra

Okay, thanks.

Moderator

Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma

Just want to get the sense on these two extraordinariness. Can you just tell me, this income from sale of mutual funds stake, what will be the tax adjusted number for that, 136 is, I think before tax, what will be the tax adjusted number?

V.K. Sharma

It is a long-term capital gain, so it will be tax at the rate of applicable for long-term capital gains.

Ashish Sharma

Okay. So if I have to adjust extraordinary, so should we strip off 136 crores from the P&L end or should we do on a tax adjusted basis?

Sudipto Sil

Actually, if you want to look at only the incomes then obviously the 136 is the net, but tax adjusted it will be lesser obviously because long-term capital gain, so we have been holding the assets for fairly long period of time, tax outgo is likely to be much less. We have been holding it since the late 90s or early 90s.

Ashish Sharma

Okay sir. And just another question on the provisioning expense we have taken on the P&L, what I understand from the notes to account, is it that 235 crores was the total provisioning, as for the new norms 2% standard asset provisioning. We had taken 99 crores from the reserve we had, so the total provisioning was 320 crores.

V.K. Sharma

Yeah, that is right.

Ashish Sharma

Okay and how much was for Advantage 5, sir?

V.K. Sharma

Roughly one third will be there.

Ashish Sharma

As you were discussing the call, we're not sure that this will be classified as teaser loan or not. And if RBI has said that this is…

V.K. Sharma

No, from my side I am sure that it is not teaser loan. The regulator has to take a comfort on that.

Ashish Sharma

Just want to get a sense; in case it is not classified, we can see a sort of right back also from this one to the P&L.

V.K. Sharma

Yeah.

Ashish Sharma

Okay. Thanks. That is all, sir. All the best for next quarter, sir.

Moderator

Thank you. The next question is from the line of Vikesh Gandhi from DSP Merrill Lynch. Please go ahead.

Vikesh Gandhi

Just one small quick question, as you mentioned that Chennai, Bangalore, Hyderabad, Bombay would be the largest market in terms of your book. I just want to understand, all these four cities that you mentioned would have immense competition out there, so how is that it's not getting supposedly reflected, when you say that there is no competition, I mean, just does not connect, because these four cities are where most of the activities is happening in terms of real estate market. I'm sure whether it is a NBFC or a bank, everybody would be jumping in.

V.K. Sharma

Yeah, there is competition in these four cities also, but maybe our presence is established and we have a very strong distribution network. And then there is a kind of relationship chain, so that works. I would like to just quote one example, after joining I had gone to one of the branches there in Chennai, when this came, just like that, ordinary person “a father comes with son and daughter-in-law, get loan from LICHF. I asked them,” why you have come here”? No, no I have taken loan earlier, so I am coming here only.” No issue of this, I asked him about interest-rate also and then bank also, because the next door the bank is there. “No, no I have taken the loan here only, and I am comfortable”. So this is the approach of old customer, we have been operating from fairly longtime and that lineage of typical LIC I will say, that works in our favor.

Vikesh Gandhi

Another small thing is that, just want to understand what could be your, almost a month has passed post December, and I think your incremental cost was 8.3, would it be fair to assume, it is similar even now, or 20-25 days later or it would have gone up by…..

V.K. Sharma

Borrowing cost, you are saying. It is fairly same, in the month after November; we borrowed around 9.20%, 9.30%, 9.38% like that. So more or less, till date we are on the same, even resetting also we are doing it less than that 9%- 9.25%.

Vikesh Gandhi

And where most of the borrowings in the last quarter particularly would have come from which side, banks…..

V.K. Sharma

That is where, which has given to me a confidence as CEO. You will be surprised there are not less than 30 organizations and it is not LIC, that is the best part. On all insurance companies, all banks, mutual funds all have participated in our NCDs.

Vikesh Gandhi

So what would be the mix in the last three months, in terms of borrowings, in terms of banks, bonds, short-term money?

Sudipto Sil

The short-term is obviously is much less, we do not do short term borrowings. Most of it has coming from the three year plus, we have done a couple of bond placements, so I would leave that in the last two months, that is December-January, predominant it has been issuance of bonds, and also to a fair extent term loan from banks.

Vikesh Gandhi

Okay, so it is a mix of just term loans and bonds.

V.K. Sharma

That is true.

Vikesh Gandhi

Okay, fine. Thank you.

Moderator

Thank you. Our next question comes from the line of Praful Kumar from Principles Mutual Funds. Please go ahead.

Praful Kumar

What is the average age of the liabilities borrowings today?

V.K. Sharma

Five years.

Praful Kumar

Can you give us an exact split in terms of bank loans and borrowing….how you stand?

Sudipto Sil

Predominantly, this is around 58% from the bonds, that is long term convertible debentures, around 25% is term loans from banks, and we have got a subordinated debt in the upper Tier-2, which comprise another 7%, and refinance from NHV closer to 4%, then existing old term loans from LIC at 2% and the rest will be miscellaneous including retail deposits.

Praful Kumar

Thank you sir and all the best.

Moderator

Thank you. Our next question is from the line of Mandhar Gadkari from India Advisory Partners. Please go ahead.

Mandhar Gadkari

Just two questions. One is, would you have a data along the incremental disbursements. How much is for a fresh loan, fresh buying versus or kind of a resale?

V.K. Sharma

Fresh buying versus resale. It is 80-20.

Mandhar Gadkari

Second question was on this developer loan which in Q3 … you obviously slowed down Q4, you would again try to increase. But looking at the real estate market per se where the volumes per se are drying and how do you decide to give which developer because you need…..

V.K. Sharma

We have prioritized it. Like that ongoing projects here we have part-financed.

Mandhar Gadkari

But incrementally like a kind of scenario assuming there is a dry up in the volumes and there is no cash flow to the developer. So how do ensure your quality of asset or the NPAs, how do you ensure, though you may have a security? How does it work?

V.K. Sharma

At present we have security more than 2.5 times. There we have cushion and whenever we are doing that disbursement prior to that we go through the exercise once again. We ensure that the quality is maintained, and we also assess the track record of the developer and financer because our number is limited. It is not like that we are giving 2000-3000 developers over the country, selected 50-100 people are there.

Mandhar Gadkari

And I think, you said the spread is around 300 to 400 bps more than the retail.

V.K. Sharma

Yeah, that is true.

Mandhar Gadkari

And sir, geographical spread of these developers loan and would it be PAN India….

V.K. Sharma

Yeah. Primarily it is four cities. Mumbai is main, then Bangalore, Chennai and Delhi NCR. Other cities we have not done.

Mandhar Gadkari

Thank you very much.

Moderator

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Anish Damania of Emkay Global, for closing comments.

Anish Damania

Thank you very much. On behalf of Emkay I would once again thank you all for joining the call. Have a great day.

Moderator

Thank you. On behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining us. And you may know 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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