



**“Repco Home Finance Limited Q4 FY14 Results
Conference Call”**

May 19, 2014

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Repco Home Finance Limited
May 19, 2014

Moderator: Ladies and gentlemen, good day and welcome to Repco Home Finance FY'14 Results Conference Call, hosted by JM Financial Institutional Securities Private Limited. As a reminder, all participant lines will be in 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, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I will now hand the line over to Mr. Amey Sathe of JM Financial. Thank you and over to you Mr. Sathe!

Amey Sathe: Good afternoon everyone and welcome to Repco Home Finance Earnings Call to discuss FY'14 results. We have Mr. Varadarajan – Managing Director of the Company, Mr. V. Raghu – Executive Director, Mr. K. Ashok – CGM Credit and Mr. T. Karunakaran – CFO. May I now request Mr. Varadarajan to take us through financial highlights post which we can open the floor for question-and-answer session. Over to you Sir!

R. Varadarajan: Good afternoon everyone and a warm welcome to the Repco Home Finance Limited earnings conference call for the quarter and year ended 31st March 2014. This is a special moment for us as it marks one year post our IPO. A year that has emerged as a landmark one for us, both in terms of growth in our loan book and profitability as well as superior margins and returns.

We are happy to report a loan book growth of 32% during the year driven by 47% growth in disbursements. Earnings witnessed an increase of 38% driven by improved margins. We exceeded our target spread of 3%, NIM of 4% and RoA of 2.5%. During this year we earned a spread of 3.2%, NIM of 4.7% and RoA of 2.7%. We achieved 30 basis points reduction in our cost of debt by leveraging our impeccable track record of paying back our debt on time - we got our bankers to price all loans at their base rates. At the same time, we improved the yields on the loan book by 30 basis points by strategically increasing the share of the LAP portion to 18.7% from 14.9% in FY'13.

With a capital adequacy ratio (CAR) of 24.5%, we believe we are well positioned to fuel our growth with deeper penetration in existing geographies and contiguous expansion in regions outside the South.



Repco Home Finance Limited
May 19, 2014

The growth we achieved has been despite another challenging year on the macroeconomic front. Inflation continued to surge and as a result, interest rates also remained elevated. However, trends in the last quarter suggest some cooling-off in the same. Now with a new and stable Govt. coming in, we hope that the macroeconomic conditions would improve.

Our outlook for the mortgage sector continues to be buoyant since the business is levered to the growing demand for housing, coupled with an acute shortage of housing already prevalent in the country. Our unique focus on the under-penetrated segments of non-salaried borrowers and tier 2&3 cities would continue to drive our growth. Non-salaried segment comprised 55% of the loan book as on 31st March' 14.

We are deepening our presence in Southern markets along with contiguous expansion in other states, while maintaining our cost economics. . Our cost to income ratio of 18.4% is amongst the lowest in the industry. This year we entered Madhya Pradesh with a branch in Indore. Today our retail network comprises of 91 branches and 31 satellite centers across 9 states and the union territory of Puducherry. Of these, nearly 88% is located in niche markets of tier 2 and 3 cities.

Maintaining optimum asset quality has been a strong area of focus for us. We have done this by ensuring robust risk management processes are in place. Our risk management is rigorous, starting with knowing our customers, maintaining prudent credit guidelines and proactively monitoring our growing portfolio Gross NPA currently stands at 1.47%. Our Net NPA has improved to 0.72% from 0.99% in FY'13, with provisioning coverage ratio at 51.5%. We have consciously focused on improving the PCR with a view to take it to 100% in a few years.

Repco Home Finance is a long-term borrower with diversified sources of borrowing which we aim to further diversify in the coming quarters. Currently, bank borrowings comprise about 65% of the total borrowings, NHB borrowings about 25% and Repco Bank about 10% as on 31st March, 2014.

Let me now quickly summarize the financial highlights for FY14:

- Total income from operations for FY14 stood at Rs 534 crores, up 32% year on year



*Repco Home Finance Limited
May 19, 2014*

- Net interest income was Rs 190 crores, up 52%
- PAT stood at Rs 110 crores, up 38% year on year
- Disbursements grew by 47% year on year to Rs 1,715 crores
- Our loan book stood at Rs 4,662 crores as on 31st March 2014, a growth of 32% year on year
- We reported NIM of 4.7% for the period ended March 31, 2014, which is largely a reflection of improving spreads to 3.2%
- RoA and RoE stood at 2.7% and 16.4%, respectively, for the same period

We foresee a positive external environment going forward as the new government puts in place growth-oriented policies. The long-term drivers for housing finance industry remain intact.

Finally, with our strong capital position, an efficient and scalable operating model, we believe that we would continue to compete effectively in expanding the Repco Home franchise. We would strive to maintain our loan book growth and profitability with deeper penetration in existing markets and wider geographic expansion into newer markets.

At this point I would like to thank all of you for joining the call. We will now take the questions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Sandeep Jain from Sundaram Mutual Fund. Please go ahead.

Sandeep Jain: Can you briefly explain what your growth plans would be for FY'15 and margin expectations?

Company Speaker: We expect to maintain the average growth rate we have achieved during the last couple of years. As far as the margins are concerned, we have the leverage available on the liability side as well as on the asset side to maintain a NIM of around 4% and a spread of around 3% which is our long-term strategy. We have untapped avenues on the liability side. Today we are borrowing only from NHB, banks and our



Repco Home Finance Limited
May 19, 2014

parent bank so we can look at other instruments like NCDs and external commercial borrowings. On the asset side, of course we have products like housing loan and LAP whose mix we can play around with to maintain the spread. Securitization could be another possibility to raise resources.

Sandeep Jain: So what kind of LAP portfolio you are targeting in FY'15?

Company Speaker: We are right now around 18.7% on LAP. We would keep it around 20%.

Sandeep Jain: So there isn't much room available to increase LAP and protect spreads?

Company Speaker: We have a spread of 3.2% as of now and our long-term strategy is to maintain it at 3%. So I think we can play around with the cost of funds and if required, we can increase interest rates.

Sandeep Jain: For the LAP are we tracking the end use?

Company Speaker: We track the end use of the funds. In most cases, the loan is for working capital purpose.

Sandeep Jain: That is it from my side.

Moderator: Thank you. Next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: In terms of volatility in the asset quality that we are used to seeing quarter on quarter, this year was very different. In fact, FY'14 NPAs almost settled at FY'13 levels. Is it because our recovery initiatives are fructifying and a sign that we should not expect too much volatility going forward?

Company Speaker: We are earnestly focusing on recoveries with a view to taper down quarter-on-quarter volatility in NPAs. Our endeavor would be to maintain this trend.

Kunal Shah: In terms of operating expense this time, I believe there were some extraordinary items in Q3 but still the overall operating expense growth has been quite high at almost 59% in FY'14. So just wanted to understand the other reasons driving this. Also, where do



you expect this overall opex growth to settle over the next few years as it has outgrown the overall expansion in balance sheet size in FY'14?

Company Speaker: We granted ESOPs in FY'14 to our employees, the same has contributed significantly to the opex expansion. Apart from that, we opened 18 branches during the year, paid insurance on properties financed, spent money on advertising to augment our brand equity, paid fee to credit rating agencies, increased the employee count by about 22% to support growth objectives.

Kunal: So maybe FY'14 was an aberration and the opex growth would match the balance sheet growth going forward?

Company Speaker: Yes

Kunal: Thanks a lot.

Moderator: Thank you. Next question is from the line of Arjun Arshar from Envision Capital. Please go ahead.

Arjun Arshar: What is the spread that we have currently just on the housing loans?

Company Speaker: In the housing loan the yield was 12.07% and the overall cost was 9.32%.

Arjun Arshar: But this is the incremental spread or historical ?

Company Speaker: On the entire housing book.

Arjun Arshar: Suppose we have to lend Rs. 100 Crores or 200 Crores for housing, what would be the incremental spread?

Company Speaker: I think we should be in a position to maintain the same spread on housing loans.

Arjun Arshar: Okay and you said a while back that if need be you are open to raising the interest rates, have you seen the competition do that?



*Repco Home Finance Limited
May 19, 2014*

Company Speaker: Since we are maintaining our target spread we have not increased the interest rate so far. It has nothing to do with what competitors do.

Arjun Arshar: But considering the competitive scenario and the rates at which certain large banks are lending I was just wondering how confident we are about raising the interest rates and maintaining our market share going forward without diluting the asset quality?

Company Speaker: Considering 55% of our loan book is to the non-salaried segment, we believe that we have the flexibility to play around with the interest rates.

Arjun Arshar: The pricing for this segment is driven by the competitive forces or more by the keenness to price the risk of lending to that segment, the non-salaried class?

Company Speaker: Basically, we are taking into account the risk that is there in lending to that segment.

Arjun Arshar: That is it from my side.

Moderator: Thank you. Next question is from the line of Jyothi Kumar from Spark Capital. Please go ahead.

Jyothi Kumar: Just a couple of questions, one is the outstanding RHF funds that we have on our balance sheet as of today?

Company Speaker: It is around Rs. 600 Crores.

Jyothi Kumar: The other thing I wanted to know was the average ticket size in our LAP book on the incremental sanctions that we may have done?

Company Speaker: It is around Rs. 20 lakhs incrementally.

Jyothi Kumar: What was that in FY'13?

Company Speaker: FY'13 I think it was around Rs. 16 to 17 lakhs.

Jyothi Kumar: That is it. Thank you.



*Repco Home Finance Limited
May 19, 2014*

Moderator: Next question is from the line of Rahul Bhangadia from Lucky Investment. Please go ahead.

Rahul Bhangadia: Sir my questions have already been answered. Thank you so much.

Moderator: Next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Sir what would be the total number of new customers that we might have added this year?

Company Speaker: Around 10,000 in gross terms.

Digant Haria: As you earlier said that growth guidance for next year is close to what we did in the last 2-3 years, I was just calculating the number of new loans that each employee can do per year. So if we go by that guidance of 25% to 30% loan book growth, I think you will have to significantly scale up your employee base from here in the same branches. How do you plan to work this math around as an employee is not responsible for more than 20-30 loans a year?

Company Speaker: See as we have been maintaining, we will try to maintain a per-capita business of Rs.10 Crores. Any addition to the employee count will depend on the growth of the loan book.

Digant Haria: So the loan mela model will continue to contribute to the bulk of the incremental growth in the loan book and you will employ DSTs as and when there is a requirement?

Company Speaker: Absolutely.

Digant Haria: That is it from my side.

Moderator: Thank you. Next question is from the line of Jigar Walia from OHM group. Please go ahead.



Jigar Walia: Congratulations for the good numbers. Sir is it possible for you to share the cost of funds from banks, NHB and Repco Bank?

Company Speaker: The cost of funds from NHB is around 8.3%. We borrow from Repco bank and other banks at 10.3%.

Jigar Walia: What is the arrangement with Repco Bank in terms of cost of funds? Would it be the same as the other bank or they have their own base rate?

Company Speaker: Repco Bank has its own base rate which is not significantly different from average rate of other banks. When lending to us Repco Bank will match the rates offered by other banks.

Jigar Walia: Is it an overdraft account?

Company Speaker: It is a cash credit limit.

Jigar Walia: So is it that the actual utilization would be not for the full year but only be for part of the year?

Company Speaker: Naturally, when we avail funds from other sources that cannot be utilized on the same day, the same is deposited with the parent bank therefore their limits will come down at that point in time but in course of time the funds get utilized.

Jigar Walia: On the rural housing fund (RHF), I think the 2% rate cap would apply only on incremental loans and not on the old loans that you would have availed under that. Have we availed any fresh loans under that window?

Company Speaker: You are right. We have not availed any new loans under this fund.

Jigar Walia: Any progress on this news that NHB may rollback the spread cap? I think there were no takers for the 2% spread cap.

Company Speaker: We believe most institutions have not availed under this scheme because of the 2% cap so probably now NHB will have to take a call. We expect a positive communication on this front this financial year.



*Repco Home Finance Limited
May 19, 2014*

Jigar Walia: Sir how much do you plan to borrow from NHB as refinance this year?

Company Speaker: We expect to borrow Rs. 500 to 600 Crores.

Jigar Walia: How much did we borrow in FY'14?

Company Speaker: Last year we had a sanction of Rs. 250 Crores from NHB and we availed Rs 100 Crores.

Jigar Walia: This would be under the other schemes where you do not have any spread caps?

Company Speaker: Right.

Jigar Walia: Sir last question, if you can give some color on the branch expansion strategy that we have for future? Also, how do you decide in terms of adding branches - how do you go about identifying locations?

Company Speaker: The strategy is normally to open about 15 branches in a year. Two-thirds of that will still be in the Southern region where we would like to achieve a deeper penetration and one third will be in other states. The strategy going forward will be to consolidate our position in the states we are currently operating in and also look for opportunities available in the other states where we have not entered so far. The focus will be on identifying the housing shortage and gauging the level of housing and economic activity in the target State. We look at all of that, among other things, and decide whether to open a branch or not.

Jigar Walia: When you enter into a new state you look at consolidating in specific districts or is it more scattered? Within a particular State I understand you open a new branch when an existing branch crosses a particular turnover target.

Company Speaker: No it is not in that way. Normally, we follow the hub and spoke model. We will also continue to do business in our existing branches. A branch usually caters to a radius of 25 kilometers and if we identify opportunities beyond the aforementioned radius we open a satellite center, which is typically a one man office, and attach it to the main branch.



*Repco Home Finance Limited
May 19, 2014*

Jigar Walia: Sir if I may add one more question, what proportion of loans are sourced by employees and outside agents?

Company Speaker: We do not have any agents as of now. Entire business is sourced through by employees only.

Jigar Walia: Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Sneha Kothari from Subhkam Ventures. Please go ahead.

Sneha Kothari: What is the targeted ROA and ROE?

Company Speaker: Targeted ROA is 2.5% to 2.7% and targeted ROE is the pre-IPO level of around 22%.

Sneha Kothari: Any updates regarding ECB borrowings?

Company Speaker: We will become eligible only at the end of the current financial year (FY'15). We will take a call at that time.

Sneha Kothari: This pre-IPO ROE target of 22% is for FY'15 or FY'16?

Company Speaker: We are not in a position to comment on that now. It might take longer than the time frame indicated by you.

Sneha Kothari: What is the outlook on NIM?

Company Speaker: As of now it is 4.65%. Our endeavor will be to ensure that it is always above 4%.

Sneha Kothari: Last question is on target PCR ratio.

Company Speaker: In FY'14 year we have already taken it up from 33.7% in FY'13 to 51.5% Our target is to take it to 100% in a few years.

Sneha Kothari: Sir what is your outlook on NPAs?

Company Speaker: Our endeavor will be to further bring the NPAs down from the current level of 1.47%.



*Repco Home Finance Limited
May 19, 2014*

Sneha Kothari: Are we seeing any stress in Andhra portfolio?

Company Speaker: It was there during last year but it has now stabilized. It is improving now.

Sneha Kothari: Sir is there any asset quality issue in the lap portfolio?

Company Speaker: There has been no deterioration in the asset quality in the LAP portfolio Yes it is slightly more than the housing loan portion. We are aware of this.

Sneha Kothari: How much would that be Sir?

Company Speaker: NPA on the housing portion is 1.45% and on the LAP portion, it is marginally higher at 1.55%.

Sneha Kothari: All the best Sir.

Moderator: The next question is from the line of Atul Karva from Systematix. Please go ahead.

Atul Karva: Can you provide me with your yield on LAP loans?

Company Speaker: 15.88%.

Atul Karva: Can you give me the branch breakup at the end of March 2014?

R. Varadarajan: We had 91 branches and 31 satellite centers.

Atul Karva: Can you provide state-wise breakup?

R. Varadarajan: We have one branch in West Bengal, one in Madhya Pradesh, one in Odisha, five in Gujarat and six in Maharashtra. The remaining branches and satellite centers are in South India.

Atul Karva: That is it from my side. Thank you.

Moderator: Thank you. Next question is from the line of Mihir Ajmera from Enam Holdings. Please go ahead.



*Repco Home Finance Limited
May 19, 2014*

Mihir Ajmera: Congratulations on your numbers. What is the loan book exposure to Andhra Pradesh?

Company Speaker: About 14%.

Mihir Ajmera: Have we started with credit disbursement in the region or are still focusing on the recovery?

Company Speaker: No we are doing disbursement in the region. But yes, there was a slowdown in the growth of disbursements.

Mihir Ajmera: On the ground how do you see it currently? Has the situation improved considerably?

R. Varadarajan: Yes, definitely. Now the government offices are functioning. Earlier, there were issues while obtaining Encumbrance certificates. Now that is sorted.

Mihir Ajmera: Tamil Nadu exposure would be how much to the loan book?

Company Speaker: 63.3%.

Mihir Ajmera: Thank you.

Moderator: Next question is from the line of Bobby Jayram from Frunze Investment. Please go ahead.

Bobby Jayram: What is your market share in Tamil Nadu?

Company Speaker: We do not have the market share figures.

Bobby Jayram: Approximately, is it single digit or high double digit. I am just trying to get an idea of how much room is there to grow in that State?

Company Speaker: Absolutely no idea. However, the room for growth is tremendous.

Bobby Jayram: In terms of the risk worthiness of the assets do you make any distinction between a loan made to a salaried employee and a loan made to a non-salaried person or do you treat them alike?



*Repco Home Finance Limited
May 19, 2014*

Company Speaker: No. We have to follow the regulator's guidelines in this regard. As per the NHB guidelines there is no difference in the risk weightage between the salaried and the non-salaried.

Bobby Jayram: Thank you very much.

Moderator: The next question is from the line of Arun Gopalan from Systematix. Please go ahead.

Arun Gopalan: Congrats on a good set of numbers. Two parts to my question here; the first part is I wanted to know about your marketing model for expansion outside of South, any updates on the performance of DSAs in Maharashtra?

R. Varadarajan: Again the marketing is done through branches - loan camps and direct walk-ins, local advertisements and word of mouth referrals. We have not really done any evaluation study on the DSA model as it is too early.

Arun Gopalan: The second thing I wanted to know was in the last quarter what has been the growth in States outside of the South in terms of both housing loans and LAP as compared to the growth in South?

Company Speaker: Centers with very small loan portfolios and small number of accounts will of course show exponential growth. However, there is not much difference in the overall growth rates.

Arun Gopalan: So the accretion in terms of new accounts in States outside of South would be the same as that what's happening in South?

Company Speaker: That is correct.

Arun Gopalan: My last question is on your borrowing. We have discussed that NCDs would be an option. Are we looking at NCDs? You initially mentioned that you would be going in for a small portion?

Company Speaker: We are waiting for the interest rates to turn favorable.

Arun Gopalan: So do you see that happenings sometime during FY'15?



Company Speaker: We are hopeful.

Arun Gopalan: So would this be somewhere in the second half of the fiscal.

Company Speaker: Probably.

Arun Gopalan: What you think would be the size that you might be looking at?

R. Varadarajan: We have approval up to RS. 500 Crores. We will see. It all depends on market conditions and cost of funds

Arun Gopalan: So what would be your comfort level in terms of interest cost?

R. Varadarajan: The rate should be comparable to the rates at which we are borrowing currently from banks. We would not like to go for something which is significantly higher than the rate at which we borrow from the banks.

Arun Gopalan: So the company would be confident that it will be able to raise NCDs at 10%?

Company Speaker: We would be comfortable with that rate.

Arun Gopalan: Thank you Sir.

Moderator: Next question is from the line of Sushil Choksey from Rosy Blue Securities Private Limited. Please go ahead.

Sushil Choksey: Congratulations on your result. My question is you just said that you would be raising NCD and you are borrowing at 10.3% from Banks. Do we give certification to banks regarding priority sector status?

Company Speaker: Most of the loans we give can be classified as priority sector. However, some banks offer us the same rate on borrowings for non-priority sectors loans as well.

Sushil Choksey: So all of it is not conditional on lending to priority sector?

R. Varadarajan: Not at all.



*Repco Home Finance Limited
May 19, 2014*

- Sushil Choksey:** May I ask why NHB refinance is declining year-on-year?
- R. Varadarajan:** That is because NHB has put an on-lending cap of 2% under the RHF scheme. Bulk of our borrowings from NHB was under that window.
- Sushil Choksey:** Second thing is what kind of collaterals does NHB take from you for onward lending?
- R. Varadarajan:** It is 100%.
- Sushil Choksey:** Are you not offering any additional security to them?
- R. Varadarajan:** No.
- Sushil Choksey:** Why we are not considering commercial paper in the prevailing market conditions?
- R. Varadarajan:** See commercial papers are essentially short-term instruments but for a housing finance company its ALM position is very crucial. Basically we are looking for long term funding.
- Sushil Choksey:** I understand that but are we not getting prepayments which would provide some cushion in managing our ALM?
- R. Varadarajan:** Prepayments are there. For example, on average if we give a loan for 15 years the loan remains in the book only for a period of 9 years.
- Sushil Choksey:** Still commercial paper would cost much lower in prevailing market conditions.
- R. Varadarajan:** We will definitely explore that option.
- Sushil Choksey:** Any insurance company would be able to give you a commercial paper at a much cheaper rate on a direct basis without involving any agent..
- R. Varadarajan:** We will look at it. We have not so far attempted to raise resources through the commercial paper route. We will take a call.
- Sushil Choksey:** What is your plan for expansion into Western and Northern region now?



*Repco Home Finance Limited
May 19, 2014*

- R. Varadarajan:** We have already expanded into the Western region. We would like to consolidate our position before we move up. Normally our strategy is to expand on a contiguous basis.
- Sushil Choksey:** What is the definition of "rural" while taking concessional refinance from NHB?
- R. Varadarajan:** We follow the definition prescribed by NHB.
- Sushil Choksey:** Thanks a lot.
- Moderator:** Next question is from the line of Sneha Kothari from Subhkam Ventures. Please go ahead.
- Sneha Kothari:** Sir what is our dividend payout policy?
- R. Varadarajan:** The board has recommended Rs.1.20 for the current year.
- Sneha Kothari:** What would be the policy for FY'15 and FY'16?
- R. Varadarajan:** The Board will take a call next year.
- Sneha Kothari:** Thank you.
- Moderator:** As there are no further questions, I will now hand the conference over to Mr. Amey Sathe for his closing comments.
- Amey Sathe:** On behalf of JM Financial I would like to thank the senior management team of Repco Home Finance and all the participants for joining. Thanks a lot.
- R. Varadarajan:** Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of JM Financial Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.