



Q3'FY14 Conference Call Transcript of Repco Home Finance Limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Beulah, moderator for this conference. Welcome to the Repco Home Finance Limited 3QFY14 earnings call hosted by SBICAP Securities. We have with us today the top management team of Repco Home Finance. At this moment, all participants are in a listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the phone to Mr. Ravikant Bhat, Research Analyst, SBI CAP Securities. Please go ahead sir.

Ravikant Bhat: Good morning everyone. It's a pleasure to host Repco Home Finance for this investor interaction. We have with us today Repco's top management team led by the Managing Director Mr. R Varadarajan, Executive Director Mr. Raghu, CFO Mr. Karunakaran and CGM and Chief Credit Officer Mr. K. Ashok. I request Mr. Varadarajan to take us through the business and earnings performance of Repco in 3Q FY14. Over to you Sir.

R Varadarajan: Good morning to everyone and a very warm welcome to our earnings conference call for the third quarter and nine months ended 31st December 2013. I would like to brief you on our performance and strategy initiatives taken to keep up the growth momentum. This has been another challenging quarter for the Indian economy, which continues to see a period of stagflation. The Reserve Bank hiked rates by 25 basis points in the recent monetary policy review due to worries on the high core inflation. However, the forward guidance has been positive with the Reserve Bank indicating that if inflation drops below the expected path, further policy tightening in the near term is not anticipated at this juncture and they may even be a rate reduction. The growth opportunities in the housing sector remain intact on the back of robust retail demand and acute housing shortage in the country. Metro and Tier-I cities are seeing slower growth currently with stagnant property prices. However demand in Tier-II and Tier-III cities has been consistently growing. Even in tough macro environment, we are pleased to report earnings growth of 50% year on year for the nine months in FY14. This has been on the back of strong growth in disbursements owing to our strong niche. We have a diversified set of borrowers, with non-salaried segment constituting 54.5% of the loan book of the company and salaried segment constituting the rest. We believe non-salaried is an underserved segment with huge opportunities, wherein we have been able to penetrate successfully due to our robust credit appraisal and evaluation process.

We also offer loan against property which currently constitutes 17.5% of the loan book. Our constant focus on cost control and robust risk management measures has helped us improve margins and returns. With regards to higher NPAs, this is a part of our business model as non-salaried segment tends to have a lumpy cash flow profile. However, all these NPAs are technical in nature with total write-off till date being just 0.07% of total disbursements. Over the years, we have been able to reduce our NPAs successfully – GNPA for Q3FY14 has been 2.0% as against 2.9% for Q3FY13. The provision coverage has improved to 37.4% from 21.8% a year back. We will endeavor to further bring down NPAs

In terms of liquidity position, Repco Home Finance is a long-term borrower with very limited requirement for short term borrowings. We currently borrow from 3 sources – bank borrowings 65%, NHB borrowings 26% and Repco Bank 9%. We have been looking to further diversify our borrowing profile and plan to enter the NCD market at an opportune time.

We are happy to report our strategy of contiguous growth is also well on target. After establishing a strong brand positioning in the Southern markets we are now expanding to nearby states in a contiguous manner. We are already present in the non-Southern states of Maharashtra, Gujarat, Odisha and West Bengal. Our low-cost business model has helped us to expand and sustain operations in these states. We currently have retail network of 103 branches and satellite centers as on 31st Dec 2013. Of these, nearly 2/3rd are located in niche markets of tier 2 and 3 cities.

Let me now quickly summarize the financial highlights for 9 months FY14:

- Total income from operations for the 9 months of FY14 stood at INR 384 crores, which is up 32% year on year
- Net interest income was INR 137 crores, up 59%
- PAT stood at INR 79 crores which is up 50% year on year
- Disbursements grew by 55% year on year to INR 1,203 crores
- Our loan book stood at INR 4,319 crores as on 31st December 2013, a growth of 32% year on year
- We reported NIM of 4.6% for the period ended Dec 30, 2013, which is largely a reflection of improving spreads to 3.2%
- RoA and RoE stood at 2.7% and 20.4%, respectively, for the same period

Going forward, we plan to deepen our presence in our existing Southern and non-Southern markets as well as expand geographically as and when we see an opportunity. We intend to maintain our loan book growth and sustain margins. We also intend to continue our focus on underpenetrated markets with our superior service levels, diversified liability profile and low cost operations.

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

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Yeah sir, this is Kunal Shah. Historically, we have seen increase in GNPA to the tune of 100 basis points as we would find credit cost to be in the higher range of 60 to 100 basis points. However, the company has reported a decline in GNPA level during Q3FY14. So anything specific done in this quarter, wherein the recoveries have been so strong and the increase in gross NPA has just been kept at 36 basis points. Were there any specific recovery efforts, because as far as the overall system is concerned we are seeing an increase in stress?

R Varadarajan: As far as recovery is concerned, we have a systematic procedure for recovering the dues. So, that has helped us in bringing down the NPA level compared to the third quarter of last year. It was almost 3% gross NPA and it has come down to 2% now. We also conducted special recovery camps consisting of officials from corporate office reaching out to branches where we see some delinquency and try to arrest it well in advance.

Kunal Shah: Out of NHB borrowings how much is under the Rural housing fund?

R Varadarajan: Two-thirds of our total liability side from the NHB is under the same.

Kunal Shah: So, it is almost similar to what it was there in the last quarter?

R Varadarajan: Yeah.

Kunal Shah: Do we see a further rundown in the borrowings from NHB because of regulatory changes, given we may be not going through the NCD route immediately?

R Varadarajan: The borrowings may not be from the Rural housing fund. It could be from some other window of NHB. We may not resort to borrowings under the rural housing window because of the 2% cap which NHB has now prescribed. For the current quarter, we have sufficient availability of funds.

Kunal Shah: Okay. And one last question is on growth. This quarter also we have seen an uptick in the growth to 32 odd percent, so any change in guidance from say, 25% to 30% growth rate which we have been giving for FY14 and FY15?

R Varadarajan: We believe we can sustain this growth.

Kunal Shah: Okay sir. Thanks a lot.

Moderator: Thank you. The next question comes from Mr. Digant Haria from Antique Limited. Please go ahead.

Digant Haria: Sir, congratulations on the good numbers. Sir, just one question, what has been our cost of borrowings from the banks in this quarter?

R Varadarajan: 10.2%.

Digant Haria: 10.2%. That is almost at the base rate. And what would be the quantum of borrowings that we did from banks in this quarter?

R Varadarajan: The outstanding at the end of the quarter was INR 2330 crores.

Digant Haria: Alright sir. That is it from my side. Thank you.

Moderator: Thank you. The next question is from Mr. Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia: Thank you for taking my questions sir. We saw a sharp jump in the other expenditure in this quarter, if you could help us understand what was that about?

R Varadarajan: There were some one time expenditures, like we have paid insurance this year amounting to INR 2.10 crores.

Rahul Bhangadia: You paid some insurance?

R Varadarajan: Yeah. We give free insurance to all the borrowers on their property, For that we have paid INR 2.1 crores this quarter.

Rahul Bhangadia: So you are not likely to continue with this free insurance scheme in future?

R Varadarajan: What happened was there was some discussion going on, in the last four or five months we didn't pay this because we were negotiating with the insurance company. So only recently we closed the deal, and paid the money. Going forward, it will be on a monthly basis and this type of expenditure may not be there.

Rahul Bhangadia: So, INR 2.1 crores was the cumulative effect of the previous lending that you did or out of that some bit is also because of what you did in this quarter?

R Varadarajan: It is both.

Rahul Bhangadia: So, how much of that amount would be from the previous quarter?

R Varadarajan: You can say about INR 35 to 40 lakhs is for the current quarter, balance pertains to previous quarters.

Rahul Bhangadia: Okay. So, roughly INR 1.5 crores is the number from previous quarters?

R Varadarajan: Yeah. We have also recognized an expense of INR 0.96 crores for grant of ESOPS to our employees and advertisement expenses of INR 1.4 crores.

Rahul Bhangadia: And that has also gone under other expenditure?

R Varadarajan: We have improved our ad campaign during the current quarter because of the festival season.

Rahul Bhangadia: And what is your normal advertisement expense on a quarter basis?

R Varadarajan: It will be around INR 30-35 lakhs normally

Rahul Bhangadia: So, basically you are saying that about INR 1.5 crores for insurance premium that you paid for previous quarters, that is one; then about INR 1 crore extra on the basis of advertisement in this quarter for the festival season.

R Varadarajan: Right.

Rahul Bhangadia: Okay, what was the third item?

R Varadarajan: ESOP.

Rahul Bhangadia: what was the ESOP expenditure last year same quarter sir?

R Varadarajan: None. The ESOP was introduced only this year.

Rahul Bhangadia: Okay, so, about INR 0.9 crores of ESOP.

R Varadarajan: Yes. That is the provision made during this quarter.

Rahul Bhangadia: So, this run rate will now kind of continue given your schedule of ESOP or this will go down?

R Varadarajan: It will be a recurring expenditure from now onwards.

Rahul Bhangadia: Sure sir. I will come back if I have more questions sir. Thank you.

Moderator: Thank you. The next question is from Mr. Arun Gopalan from Systematix Shares. Please go ahead.

Arun Gopalan: Congrats on the good set of numbers, as expected. Now, my question was regarding your expansion plans. Now, if you are going to expand outside of the Southern territories, I do feel that in certain cases, as it has been already said that you may need to have some kind of DSA tie-ups. Now, as a result of these tie-ups, even though your risk management may not be affected overall, maybe only to a small extent, but I think this will have a greater impact on the cost and may lead to some kind of a fall in margins. How does the management look at this and what do you think will be the net impact of such kinds of expansions and such kind of tie-ups with the DSA? And also the other thing I wanted to know was what sort of arrangements do we have with the DSA in terms of marketing spend? How do we remunerate them?

R Varadarajan: One, with the cost if it goes up, probably that will be compensated by the increase in the business which the DSAs will bring in. So, I think that way it will be a balance between increase in the business and the increase in the cost. Increase in the business probably will lead to increase in the yield also. The compensation for the DSA will be based on the business which they are going to bring in. So, they will be paid the initial fixed sum that will also be linked to the volume of business that they are supposed to bring in. We would like to evaluate them based on these parameters.

Arun Gopalan: Okay. Thank you. If I have more questions, I will get back in the queue. Thank you.

Moderator: Thank you. The next question is from Mr. Amey Sathe from JM Financial. Please go ahead.

Amey Sathe: Hello.

R Varadarajan: Yeah Amey, tell me.

Amey Sathe: Good morning sir. Can I get the loan book breakup in terms of salaried and non-salaried?

R Varadarajan: 45% & 55% respectively.

Amey Sathe: Okay. I just had a question on your strategy, because you have been saying that the non-salaried proportion will be around 50%. Is that right?

R Varadarajan: Yes, the proportion between salaried and non-salaried will be 50-50 with plus or minus 5% flexibility.

Amey Sathe: Okay. And is it possible to get breakup in terms of individual and LAP for the disbursement?

R Varadarajan: For the individual and the LAP, it is 82.5% for individual home loans and 17.5% for LAP.

Amey Sathe: And sir, another question is prepayment rate. So, are you witnessing any prepayments?

R Varadarajan: Our prepayment has almost been constant Amey. We have not witnessed any such pressure.

Amey Sathe: Okay. And the last question is on the ESOP expense, that will be part of the employee cost or other expense?

R Varadarajan: Yeah.

Amey Sathe: Okay sir, thanks a lot.

Moderator: Thank you. The next question is from Mr. Sanjeev Jain from Microsec Capital. Please go ahead.

Sanjeev Jain: Congratulations sir for strong set of numbers. I just wanted to know your view about the housing finance industry,. As we all know that our Indian corporates are not performing well, that is why our Indian banks are also expanding their wings on the retail front as well as housing finance portfolio. So, I just wanted to know if banks are so aggressive in this sector, will it impact your own portfolio?

R Varadarajan: We are not experiencing any impact on our portfolio for the simple reason that even if banks support retail sector and want to fund housing they will typically be concentrating on the Tier-I and the metro cities. I think everybody will have a share in this business .

Sanjeev Jain: Okay. And sir, what is your view, overall view on the housing finance industry.

R Varadarajan: Housing finance industry is expected to grow between 16% and 17%.

Sanjeev Jain: 16% to 17%?

R Varadarajan: In the coming year.

Sanjeev Jain: Okay. And sir my last question is, you have been in expansion mode, you are going to expand your branches in Tier-I and Tier-II cities as you mentioned, but all private and public sector banks are already there. And they are expanding housing loans aggressively. So sir, what is your planning, how will you expand your wings and compete with the banks?

R Varadarajan: We have a niche market, in the sense that since we have 55% portfolio lent to the non-salaried section.. We will evaluate this, as of now we have not seen any pressure. If there is any pressure we will evaluate our strategies.

Sanjeev Jain: Okay. And sir, my next question is how you people recognize your NPA?

R Varadarajan: 90 days. NHB now says 90 days.

Sanjeev Jain: So, you are in line with the NHB norms, right?

R Varadarajan: Yes.

Sanjeev Jain: Okay sir. Thank you. My questions have been answered.

Moderator: Thank you. The next question is from Mr. Ritesh Nambiar from UTI Mutual Fund. Please go ahead.

Ritesh Nambiar: Hi, good morning sir. Just on this breakup actually, what percentage you would be comfortable with on the LAP book in the long run?

R Varadarajan: We will be comfortable with 20%.

Ritesh Nambiar: Okay. Sir, about the sequential rise in gross NPA, any particular reason ?

R Varadarajan:No, there is no rise. In fact it has declined, earlier it was around 2.9% during the quarter ended December 2012 and now this quarter if you see, it is only 2%. So, there has been a substantial reduction in NPA if you see year on year.

Ritesh Nambiar: Correct. But, there is seasonality you are saying?

R Varadarajan: Yes, seasonality is there. We are trying to reduce the quarter on quarter variation. We aim to flatten the curve in future.

Ritesh Nambiar: Okay and any policy in place for the PCR, provision cover?

R Varadarajan: Our policy is to step it up to the level of at least 50%. We are trying for that.

Ritesh Nambiar: Okay. Thanks.

Moderator: Thank you. The next question is from Mr. Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Thank you sir. How are you?

R Varadarajan: Fine.

Hiren Dasani: Good. Sir, two questions. One is on the insurance payment, I didn't understand. What is this regarding. what is the scheme here?

Management: We are giving property insurance and accident cover. This we are giving free of cost to our borrowers and we were negotiating with the insurance company for a better price. This process delayed the recognition in financials.

Hiren Dasani: This is home insurance, right? This is not a life insurance?

Management: Right.

Hiren Dasani: Sure. Some sort of a group insurance scheme.

R Varadarajan: It is a group insurance, yes.

Hiren Dasani: Okay. But, you don't charge separately from the borrower.

R Varadarajan: No.

Hiren Dasani: Okay. And some of the other mortgage companies also do good amount of cross sale of life insurance policies to the borrowers. Do we do that or do we have any plans of doing that?

R Varadarajan: No, we have not done and there is no immediate plan for that.

Hiren Dasani: Okay. But, you think it makes sense?

R Varadarajan: We will have to evaluate. Right now we are concentrating on the core business.

Hiren Dasani: Sure. No, I am saying anyway the guy is borrowing from you and should be a source of cross selling income, anyway you can evaluate that. And the other thing is the ESOP. At what price the ESOPs are granted?

R Varadarajan: INR 75 per share.

Hiren Dasani: Okay, because it was at a discount to the market price, that is why you have to charge the differential to the income statement?

R Varadarajan: Right

R Varadarajan: This is for one year. And every year there will be ESOP allocation.

Hiren Dasani: You granted 244,000 shares, right?

R Varadarajan: Right. 2,44,735 options were granted. The date of grant was 25th October 2013. At that time the market price was 285.70. So the difference in value of around INR 211, that has to be amortized for the four quarters.

Hiren Dasani: Next four quarters. So, that is about INR 5 crores odd expense which will be amortized towards these?

R Varadarajan: Yes.

Hiren Dasani: And the total ESOP is about 900,000. And as and when the remaining are allotted, those will also come to the P&L?

R Varadarajan: Yes, on a yearly basis. This is for the current year. So, next year again we may allocate.

Hiren Dasani: Okay. And is the plan is to allocate at the discounted price only or it could be at the market price also?

R Varadarajan: Plan is to allocate at discounted price to incentivize the employees..

Hiren Dasani: Okay. And up to what level we have allocated the ESOP?

R Varadarajan: At all levels

Hiren Dasani: The branch managers etc. also have got the ESOPs?

R Varadarajan: Right from top to bottom, everybody will have options granted under ESOP. Every permanent employee of the company is given that option.

Hiren Dasani: It is good to know. Great, thank you very much sir. That is it from my side.

Moderator: Thank you. The next question is from Mr. Sunesh Khanna from MOSL. Please go ahead.

Sunesh Khanna: Hi sir. As far as the diversification of liability is concerned, are you working on some securitization deal. Any update on that?

R Varadarajan: We have just started looking at that. We haven't concretized our plans for securitization as of now. But, over a period of time, we will also look at securitization as an option to raise resources.

Sunesh Khanna: Alright sir. Sir, just a few data points. What could be our cost of funds from NHB borrowings?

R Varadarajan: 8.1% from NHB.

Sunesh Khanna: That is the blended cost?

R Varadarajan: Yeah.

Sunesh Khanna: Incremental yields on home loans and LAP?

R Varadarajan: The incremental yields on housing loans have remained stable at 12.1%, because we haven't changed our interest rates on advances. Similarly on the LAP side it is 15.9%.

Sunesh Khanna: Alright, thanks a lot sir.

R Varadarajan: Thank you.

Moderator: Thank you. The next question is from Mr. Lalitabh Srivastav from Dalal and Broacha. Please go ahead.

Lalitabh Srivastav: Hello sir, thank you for taking my question. First of all congratulations on a very good set of numbers. You mentioned briefly that there was some impact of seasonality on your NPA numbers. I would request if you can throw some more color on that. Secondly, I was not able to get a handle on your provisioning policy, so I just wanted to understand what kind of a provisioning coverage number we are comfortable with and what is the sustainable level we will be looking to maintain? And thirdly, just wanted to understand sir, this insurance premium that we had paid for property cover and accidental cover for our borrowers, if I understand correctly, I believe that this usually borne by the borrowers. Why should we go ahead and do that? .

R Varadarajan: More than 50% of our loan book is to the non-salaried segment. However, that segment's income profile is lumpy; it is not like the salaried section where they get a uniform salary every month. Some month's income is higher and some month's income is lower and their expenditure pattern also is different. Some quarters they have to spend more on other

expenses like your taxation expenditure, vacation, children school fees and all. Therefore there may be some NPA, which are technical in nature, because the moment it crosses 90 days overdue, the system classifies it as NPA. However, in the fourth month they come and pay. Therefore, there is some seasonality. So, if you see traditionally, in the last six years, in the month of March NPA is very low, again in the first quarter it goes up, and second quarter it comes down, and in third quarter again it goes up. Regarding your other question on provision coverage, we strictly adhere to the National Housing Bank norms for making provisions. When you do that, the provision coverage comes around less than 30% only as of now, because most of the accounts are only in the category of substandard where provisioning is very less as per NHB norms. However, our board has directed us to step up the provision, making additional provision for those accounts also to see that at least we should take it up to the level of 50% by year end. And regarding your third Question, we give free insurance as part of our product offering. That is an incentive for our borrowers and is embedded in the product. We fund the expense by using the processing fee we collect from borrowers and don't charge them separately.

Lalitabh Srivastav: Right sir, right sir. Sir, one last question if I am allowed to?

R Varadarajan: Yeah

Lalitabh Srivastav: Is it possible to quantify NPA in LAP segment?

R Varadarajan: NPA was 2.35% for December quarter.

Lalitabh Srivastav: For September quarter, this year?

R Varadarajan: It was 2.2%.

Lalitabh Srivastav: Thank you.

Moderator: Thank you. Next question is from Mr. Arjun Ashar from Envision Capital. Please go ahead.

Arjun Ashar: Hello? What would be our capital adequacy currently at the end of Q3?

R Varadarajan: 24.95%.

Arjun Ashar: Okay. Can you please recap the NIMs for Q3 versus Q2 of FY14 and also versus Q3 of FY13?

R Varadarajan: Can you repeat the question?

Arjun Ashar: The net interest margins for Q3FY14 and the same figure for Q3 of FY13 as well as Q2 of FY14?

R Varadarajan: Well, the NIM as at the end of December 2013 was 4.6%, in December 2012 it was 3.8%, in September it was 4.7%.

Arjun Ashar: What will be the trend going forward?

R Varadarajan: Since most of our assets are at variable rates, any increase in the cost of funds could be passed on to the borrower so that the spread is maintained and the NIM will also be maintained. But as a long term policy probably we would like to have a NIM of around 4% and spread of around 3%.

Arjun Ashar: But what is the risk of not being able to pass on your incremental interest cost to your borrowers because of they may migrate to a bank?

R Varadarajan: As of now we are not seeing any threat from that since focus is on the self-employed category. I think, we can easily pass on incremental increase in interest cost. Moreover, we are operating in the tier 2 and tier 3 cities where institutional funding is still not happening. So I don't find any reason as to why we cannot pass on this increase in our cost of funds.

Arjun Ashar: But please correct me if I am wrong, around 50% of your book is to salaried, right?

R Varadarajan: Yeah.

Arjun Ashar: But those people can easily migrate to banks, what would be the hurdles they would expect if they are migrating to a bank?

R Varadarajan: We have not seen any pressure over the years.

Arjun Ashar: Okay. But then why would they come to you as versus the bank, I understand, in terms of the documentation and in any of those fronts, does it matter to them because for a salaried employee especially?

R Varadarajan: One of the reasons why the salaried employee still comes to us is because of the quick processing time when compared to the other institutions. We are in a position to sanction and disburse the loans between 3 and 7 days in case of a salaried employee.

Arjun Ashar: Okay. What has been the historical allocation for salaried and self-employed.

R Varadarajan: Historically, 50-50, plus or minus 5%.

Arjun Ashar: Okay. Due to poor audio earlier, I could not catch the current loan against property figure as a percentage of your loan book; can you please confirm that again?

R Varadarajan: 17.5%.

Arjun Ashar: Okay. What is generally the end use of the money borrowed through the LAP route?

R Varadarajan: It is usually given for productive purposes like working capital. We also give loans for house improvement, repairs ,meeting important expenses like education, marriage of children etc.

Arjun Ashar: Okay. And what is the duration of this loan against property generally for working capital as well as personal?

R Varadarajan: 10 years.

Arjun Ashar: Okay. But what is the average duration, which you have witnessed for your customers?

R Varadarajan: It was 7 to 8 years.

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

Jothi Kumar: Sure. Most of my questions have been answered. Just one thing that I wanted to clarify, the insurance payment that you have made, is it a common industry practice or is it very specific to Repco?

Management: This is specific and it is unique.

Jyothi Kumar: Okay sir, that's it. Thanks a lot.

Moderator: Thank you. Next question is from Mr. Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Yeah sir. Particularly on the Andhra Pradesh portfolio, we have been hearing from most of the guys that there is some kind of a stress in AP because of political issues. We also have almost 13% of the portfolio in AP, so just want to know the NPA trends there.

R Varadarajan: You are right, you know, compared to other states, Andhra Pradesh has a higher NPA at 3.80%. However, I would hasten to add that the same has come significantly down from 5.38% the previous year.

Kunal Shah: Okay. And what is your overall assessment of the situation out there?

R Varadarajan: We are concentrating to ensure that only good quality assets are funded there. We are really careful in that therefore we are able to maintain this at 3.80%. We have brought it down from 5.38% to 3.8%, we may further bring it down in the coming quarter.

Kunal Shah: Okay. Sir, have you changed the mix of self-employed and salaried in the state?

R Varadarajan: No, whether salaried or non-salaried, if you see government employees, even they did not get their salaries.

Kunal Shah: Okay. How about other states, if you look at Tamil Nadu, then how has it been performing?

R Varadarajan: Tamil Nadu we are seeing effective performance. NPAs in Tamil Nadu are lower than overall average of the company at 1.40%

Kunal Shah: Okay, thanks a lot sir.

Moderator: Thank you. Next question is from Ms. Sneha Kotari from Shubkham Ventures. Please go ahead.

Sneha Kotari: Hello?

R Varadarajan: Yeah Sneha, tell me.

Sneha Kotari: Sir, what is the plan on your leverage ratio front?

R Varadarajan: Leverage is around 5.2 now.

Sneha Kotari: What levels are you comfortable with?

R Varadarajan: We are comfortable up to 8-9 times.

Sneha Kotari: Okay. Any plans to tap the ECB borrowings route?

R Varadarajan: *We are in talks with the RBI. We will raise money through ECB when we receive approval.*

Sneha Kotari: Okay, thank you.

Moderator: Thank you. Next question is from Mr. Umang Shah from CIMB Securities. Please go ahead.

R Varadarajan: Yes please.

Umang Shah: Sir, a couple of questions regarding loan against property portfolio. If you could just throw some color in terms of the profile of self-employed customers in this segment?

R Varadarajan: See, there are two types of customers, both salaried and non-salaried and the ratio is almost 50:50. Salaried is from, both private and public sector but as far as non-salaried segment goes, borrowers are mostly retail traders, that's what we are seeing.

Umang Shah: Retail traders?

R Varadarajan: Yeah, small shopkeepers, small traders, those who borrow for their working capital.

Umang Shah: I understand. And sir, if I were to understand that the average yield that we get here is around 15% to 16%, so what attracts them to come to us vis-à-vis going to a bank, given that this is a fully secured product, what would attract them to come to us?

R Varadarajan: One, banks will not offer any long term loan on this and for working capital loans there will be a host of formalities. However, in our case, they need not submit documents like stock sheet and the like. All they need to have is a marketable property in their name. Once we are reasonably satisfied about their repayment capacity we quickly sanction the loan. This is what customers want.

Umang Shah: I understand. And sir, just one data point, if you could give us the average ticket size, both in the loan against property as well as home loan segment?

R Varadarajan: Average ticket size in the home loan segment as of December 31st 2013, home loan it is INR 10.4 lakhs and loan against property it is INR 12.7 lakhs.

Umang Shah: Okay, great. Thank you so much.

Moderator: Thank you. Next question is from Mr. Jignesh Shah from IDBI Capital. Please go ahead.

Jignesh Shah: Yeah. Thanks for taking my question sir. I am sorry if I would be repeating the same question. First, can I get a bifurcation of your total book between individual loans and LAP?

R Varadarajan: Individual loans is 82.5%, LAP is 17.5%.

Jignesh Shah: Okay, it is only two, right? And secondly, just wanted to understand, obviously, your expansion plan is in the tier 1, tier 2 cities, right? So are there any specific states where you want to grow or how exactly you want to about it?

R Varadarajan: The expansion plan is basically we are looking at tier 2 and tier 3 cities, not tier 1 cities. And see, we would like to consolidate in the states in which we are operating right now during the current year.

Jignesh Shah: Okay. So you would be growing in tier 2, tier 3 cities of these states itself rather than expanding to outside the states. That's fine sir. One strategic question, I mean, something others also have asked, I mean, why people exactly come to you, so you said it is quick sanctioning. Also, if I understand, correctly, other HFCs also are there in self-employed segment., Is there any specific sanctioning process or is there any way that you attract these customers? Just wanted to understand if you can elaborate it.

R Varadarajan: Our credit process is totally different from what others adopt. The other reason is that since we have been targeting these customers right from day one, they also feel more comfortable dealing with an institution like ours. There is a clear market segmentation. There are institutions which take care of loans up to INR 5 lakhs, there are others which take care of loans right beyond INR 20 lakhs. We are in the category between INR 5 lakhs and 20 lakhs. So there's a clear market segmentation that we have seen. So that's why people who require between INR 5 lakhs and 20 lakhs keep coming to us.

Jignesh Shah: Okay. Any other reason apart from this?

Varadarajan: See, our experience is that in the tier 2, tier 3 areas the ground reality what we have been seeing is that banks have not been lending. Whatever housing loans that they have been doing has been mostly in tier 1 and metro cities. The specialized housing finance branches if you see; they are there in the tier 1 and metro cities. In tier 2 and tier 3 areas, the branch manager does not have the sanctioning powers to sanction a housing loan. He is referring the same to the regional office. So sometimes it takes about three to four months time for a borrower to get a loan. And then the number of visits he has to make to the branch, because every time there is a query from the regional office, the bank will call the borrower and asks him to come over and furnish the details. In our case these things are not there. So this is much more comfortable and then our policies are flexible.

Jignesh Shah: That's fine sir. What would be your credit growth target now for this year FY14 and probably FY15 if you have something in your mind?

Varadarajan: We feel that 25% to 30% growth is sustainable.

Jignesh Shah: 25% to 30%, and the proportion of LAP should reach up to 20% of the total advances and the 80% would be the individual housing loans, right?

Varadarajan: Yes.

Jignesh Shah: Okay, fine. Thanks a lot sir.

Moderator: Thank you. Next question is from Mr. Abhishek Tripathi from Kotak Bank. Please go ahead.

Abhishek Tripathi: Hi, good afternoon sir. I just wanted to know two things, with respect to the questions asked earlier about resource raising and the leverage - what is the kind of mix between bank funding and the market borrowings including CPs and NCDs you are targeting, and what it is now, and any idea sir, how the plans for such kind of borrowing are coming up, because long term borrowing would suit your profile.

Varadarajan: See, right now, the proportion between bank borrowings and the capital market it is 100% bank borrowings. We have not tapped the NCD or the CP market as of now. We are planning to enter this market since our rating has been now upgraded after the IPO, now we are looking into these markets to raise resources. What we have is a limit of about INR 500 crores that we can raise through the NCD route and about INR 200 crores in the CP route. We would like to evaluate the market condition before taking action.

Abhishek Tripathi: You have the ground work in place with regards to doing this?

Varadarajan: We have the rating; we have a rating of AA- from ICRA and CARE.

Moderator: Thank you. Next question is from Mr. Sameer Bhise from IDFC Securities. Please go ahead.

Sameer Bhise: Hello?

Varadarajan: Yeah

Sameer Bhise: Thank you for this opportunity sir. I just had a question as to what would be the difference in LTVs for home loans and LAP.

Varadarajan: LAP is 50% LTV. In case of home loans salaried segment it could go up to 85% for non-salaried segment it is 65%.

Moderator: Thank you. There are no further questions. Now I hand over the floor to Mr. Ravikant Bhat for closing comments.

Ravikant Bhat: On behalf of SBI CAP Securities, I would like to thank Mr. Varadarajan and the Repco top management team for making themselves available for this investor interaction. Thank you all participants for dialing in. Any closing remarks sir?

Varadarajan: Yeah. So on behalf of my team, I very warmly thank every one of you for actively participating in the conference call and we look forward to even better results in the future..

Moderator: Thank you sir. Ladies and gentlemen, this concludes the conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.
