



“Repco Home Finance Bank Q2 FY 2015 Results Conference Call”

November 14, 2014



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Moderator: Ladies and gentlemen, good day and welcome to the Repco Home Finance Q2 FY 2015 Results Conference Call, hosted by Systematix Shares & Stocks. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jigar Kamdar from Systematix Shares & Stocks. Thank you and over to you Sir!

Jigar Kamdar: Good afternoon ladies and gentlemen and a warm welcome to the conference call of Repco Home Finance to discuss the financial performance for the Q2 FY 2015. On behalf of Systematix Shares & Stocks, we would like to thank the Repco Home Finance management for taking out time from their busy schedule. Repco Home Finance management will be represented by Mr. R. Varadharajan – Managing Director, Mr. V. Raghu – Executive Director, Mr. K. Ashok – Chief General Manager, Credit and Mr. T. Karunakaran – CFO. I would now request Mr. Varadharajan to brief you about the financial performance for the Q2 FY 2015 then we will start with the Q&A session. I will now handover the call to Mr. Varadharajan. Thanks a lot Sir.



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R. Varadharajan: Thank you. Good afternoon everyone and a very warm welcome to Repco Home Finance Limited earnings conference call for the quarter ended September 30, 2014.

Q2 FY 2015 marked yet another quarter of satisfying performance where we managed to grow our loan book 30% year-on-year basis driven by a healthy 27% growth in disbursement and Pre DTL earnings by 24.4% during the quarter driven by net interest income growth of 25% and stable asset quality.

Asset quality remains stable year-on-year at 1.65% but improved significantly quarter-on-quarter from 2.5% seen in Q1 FY 2015. The same catapulted our provision coverage ratio to 51.5% as compared to 36.4% seen in Q1 FY 2015. Provision coverage ratio in Q2 FY 2014 was at 45.3%. During the period under review we earned a spread of 2.95% and a NIM of 4.5% making us increasingly confident of sustaining our target of 3% spread and 4% NIM going forward.

The share of LAP and non-salaried segment to the total book was 19.5% and 55.7% respectively. Return ratios declined marginally with ROA at 2.5% and ROE at 16.3% mostly because of provision for deferred taxes.

Capital adequacy ratio/CAR continues to be comfortable at 21.9%. During the quarter we opened a new branch in Bhavnagar, Gujarat and five new satellite centers in south India. Our retail network as on September 30, 2014 comprised



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of 92 branches and 42 satellite centers spread across 10 states and Union Territory of Puducherry.

On the macroeconomic front, it is heartening to note that inflation is on a downward spiral led by across the board fall in food prices. This coupled with a fall in global crude prices might lead to a conducive monetary policy action in six months from now. Should that happen, we will look to take advantage of the situation by diversifying our resource profile, which coupled with base rate reduction by banks will impact our cost of borrowings favorably. Notwithstanding our expectations on the macroeconomic environment we feel our unique focus on the underpenetrated segments of non-salaried borrowers and tier II and tier III cities will continue to drive our growth going forward.

Let me now quickly summarize the financial highlights for Q2 FY 2015. Total income from operations during the quarter stood at Rs.169.7 Crores up 31% from last year. Net interest income was at Rs.59.3 Crores up 25%. Pre DTL PAT stood at Rs.36.3 Crores up 24% year-on-year. Post DTL PAT was Rs.32.7 Crores up 12% from the previous year.

Sanctions grew 15% to Rs.558.9 Crores. Disbursements grew by 27% year-on-year to Rs.541.2 Crores. Our loan book stood at Rs.5,238.0 Crores, registering a growth of 30% year-on-year. We reported a NIM of 4.5% and a spread of 2.95%. As at the end of the quarter ending September 2014 GNPA stood at 1.65% and NNPA at 0.81%.



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Finally, with our strong capital position, an efficient and scalable operating model we believe that we can continue to compete effectively in expanding the Repco Brand. We would strive to maintain our loan book growth and profitability with deeper penetration in the existing markets and wider geographic expansion in the 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. We will now begin the question answer session. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Congratulations for a good set of numbers. My question is with respect to the borrowings mix. There is too much reliance on banks and NHB at present, when are we actually looking to tap the debt market because the wholesale rates have also come down quite significantly and definitely that option would be relatively better in terms of the cost. So, what is our plan out there in terms of our diversifying the borrowing profile?

R. Varadharajan: We hope to show some diversification by the end of the current financial year. Since we needed to have certain policies in place before going to the market, we were waiting on the sidelines. We have completed all those requirements now. Soon we will look to enter the NCD market to raise resources.



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Kunal Shah: Ok. How do we envisage the borrowings mix post diversification. Will NHB's share inch up and bank borrowings inch down?

R. Varadharajan: We expect the borrowings from NHB to move up to about 25% since we will be drawing refinance in the second half of the year and to that extent the bank borrowing will decline and then with the borrowings from the NCD markets we expect bank borrowings to settle at 65% or so by the end of the year. We will look at the market conditions and take appropriate decisions so that the overall cost of funds is not affected. We will also be entering the CP markets shortly.

Kunal Shah: Overall, volatility continues on the GNPL side, but the positive trend is that it is lower than the number seen in Q2 FY 2014. So are we positive in terms of what we are seeing that GNPL for FY 15 will be lower than FY 14 number?

R. Varadharajan: We will definitely try our best to reduce the GNPL. We will surely work on that.

Kunal Shah: Provision coverage, it would remain stable somewhere around say 50% plus?

R. Varadharajan: Now the provision coverage is around 51%. Our endeavor is to at least to take it up to 70% by the end of the year.

Kunal Shah: So we would plan to take it to 70%-odd?

R. Varadharajan: Yes.

- Kunal Shah:** Great. That would be a positive trend. Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Good afternoon. Congratulations on a good set of numbers. You said that we are looking to diversify the liability profile soon, so are we waiting for the credit upgrade or it is more of a process oriented thing that we are waiting for?
- R. Varadharajan:** It is related to the process, nothing to do with the credit rating.
- Digant Haria:** We got our last upgrade around September last year. So have we applied for any new credit upgrades or we are still staying put with AA- right now?
- R. Varadharajan:** As of date we stay at AA-. Review is on.
- Digant Haria:** Rural Housing Fund spread cap has been raised to 2.5%. So are we utilizing anything out there and if yes, how remunerative are those loans that we are doing under this particular window?
- R. Varadharajan:** For housing loans, if you see our average spread is around 2.1%. Hence, we feel 2.5% spread is good for us therefore we will avail refinance. In fact we have got our refinance sanction of Rs. 300 Crores from NHB which is further scalable, if need be. For this, we have already launched a special scheme called Repco Rural.
- Digant Haria:** So you are saying spreads there would be almost as good as a normal loan. They may not be lower, right?



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R. Varadharajan: On the housing loan, yes.

Digant Haria: Lastly Sir on this sourcing strategy last year we had started something called DST. We had tested waters in eight to ten branches. So what has been the result out of that? Are we moving these DSTs to more number of branches or we are currently relying mainly on this branch loan camp concept for our sourcing right now?

R. Varadharajan: DST is on pilot basis. We introduced this in a very few branches last year where we are making a thorough study of the effectiveness of such a system. Otherwise we continue to source a major portion of our disbursement through loan camps.

Digant Haria: I think that is it from my side for now. If I have anything later I will come back in the queue.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Good afternoon Sir. A couple of questions; firstly what are your branch opening plans for the year and the next year?

R. Varadharajan: As we have been maintaining we will be opening about 15 branches in a year, we will try to deepen our presence in the existing geographies and we will also look at newer geographies depending on the business opportunities available.

Abhishek Murarka: Sir that 15 number has not really changed? That will remain as it is?

R. Varadharajan: Absolutely, it should remain as it is, in our opinion.

Abhishek Murarka: Sir, the second question is regarding your staff expense growth. Obviously there are a few things which are not in the base. I think ESOPs and maybe some marketing or advertising related expenses. So can you break that up?

R. Varadharajan: As you know, ESOP has contributed to a large extent - in the current half-year we have made a provision of about Rs. 2.60 Crores towards the same. Similarly, the salaries have risen for the simple reason that we added more staff during the period. The staff size has increased to 490 now and secondly, promotions and subsequent pay increases have also contributed. Lastly, to some extent the pay of employees is linked to inflation, which moves accordingly.

Abhishek Murarka: Sir, thirdly what is the outstanding quantum under this Repco Rural Scheme?

R. Varadharajan: We have just started marketing the scheme. We are yet to avail refinance from NHB to a great extent under the scheme. Outstanding is about Rs. 80 crore as of now.

Abhishek Murarka: What is the outstanding under the rural housing fund?

R. Varadharajan: Rs. 482 Crores is outstanding under the rural housing fund

Abhishek Murarka: Thanks a lot.



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Moderator: Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.

Adesh Mehta: Good afternoon Sir. Congratulations for a good set of numbers. Sir just wanted to know how is competition evolving in the non-salaried segment we are operating, in both home loans and LAP? How is the pricing evolving in LAP segment? Are we seeing any pressure?

R. Varadharajan: It is business as usual. We haven't felt any pressure.

Adesh Mehta: Sir, would it be possible to quantify it in terms of LAP what were the yields one year back and what are the yields currently?

R. Varadharajan: As far as LAP is concerned, the yield has remained at 15.9% over the last couple of years. Similarly the yield on the book of housing loan alone has also remained stable at 12.1% for the last two years.

Adesh Mehta: Would that be very well reflective of what is going on currently at the ground level? I was just asking in terms of how we are seeing the competition as of today. Are we seeing some pressure on yields?

R. Varadharajan: There is no pressure on the yields because of competition.

Adesh Mehta: So our pricing power remains intact Sir?

R. Varadharajan: That is right. Our pricing power has remained intact.

Adesh Mehta: Thank you Sir. That is it from my side.



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

Amey Sathe: Thanks a lot for taking my question. Sir, can I get the loan book breakup in terms of home loans and LAP?

R. Varadharajan: On outstanding basis, home loan stands at Rs. 4319 Crores and LAP at is Rs. 1019 Crores.

Amey Sathe: Can I have it for the last quarter also, if possible?

R. Varadharajan: You want it for previous quarter?

Jigar Walia: Q1 FY 2015?

R. Varadharajan: Housing loan at the end of June 2014 was at Rs. 3953 Crores and LAP was at Rs. 940 Crores.

Amey Sathe: Sir, I think you have given me loan outstanding, right?

R. Varadharajan: Yes.

Amey Sathe: I also want the disbursement breakup Sir?

R. Varadharajan: Disbursement breakup for June 2014, housing loan was at Rs. 301 Crores and home equity was at Rs. 114 Crores.

Amey Sathe: And for September 2014?

R. Varadharajan: It was Rs. 419 Crores for housing loans and Rs. 122 Crores for home equity.



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Amey Sathe: Sir, does the tier-I capital include our current profit?

R. Varadharajan: Tier-I capital will include the surplus transferred from the P&L to the reserves.

Amey Sathe: Sir, there is a sharp reduction in tier-1 capital adequacy in this quarter any specific reason for the decline from 23.5% to 21.9%?

R. Varadharajan: Some unutilized sanctions were there for which we had to provide a risk weight of 50% plus deferred tax liability. These things take away the surplus transferred to the P&L account and increase the burn rate.

Amey Sathe: What is the risk weight in LAP?

R. Varadharajan: It is 100%.

Amey Sathe: 100%?

R. Varadharajan: Yes.

Amey Sathe: Sir anything on the funding cost, are you witnessing any moderation because most of it is bank funding so whenever the banks reduce their rates to we will get benefitted?

R. Varadharajan: As far as the funding cost is concerned probably it will remain at these levels till such time RBI makes some announcements.

Amey Sathe: Sir, RBI has notified NBFCs regarding increase in minimum CRAR. Sir do you think NHB will also probably might take the same step for HCS?

R. Varadharajan: NHB follows the regulations given by RBI. I think probably HFCs could also expect some increase in the CRAR level, but I think NHB will give us some time to move to the new regime. Anyway, given our adequate capitalization we will be least affected.

Moderator: Thank you. Next question is from the line of Atul Karwa from Systematix Shares & Stocks. Please go ahead.

Atul Karwa: Sir, regarding your borrowing mix, you said that you are looking to diversify before the end of the year. So are you looking at any particular rate?

R. Varadharajan: The rate will be determined by the market. I think it is too early for us to comment on the rate at which we will be raising NCDs or CPs.

Atul Karwa: But any range if you can provide?

R. Varadharajan: Our endeavor probably will be to ensure that our overall weighted average cost of funds remains at the same level.

Atul Karwa: Sir, you will be maintaining your NIMs around your target for this year and the next year?

R. Varadharajan: That is our endeavor.



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Atul Karwa: Thank you Sir. That is it from me.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Just a follow-up question, Sir what would be the split between retail and LAP of GNPA's?

R. Varadharajan: For the housing loan it is 1.59%, home equity GNPA is at 1.89%.

Abhishek Murarka: What was the same the previous quarter?

R. Varadharajan: Home loan GNPA was at 2.31% and home equity GNPA was at 3.25%.

Abhishek Murarka: Sir, did we sell any loans to manage NPAs?

R. Varadharajan: No, the decline is because of recoveries. We haven't sold any loans till date.

Abhishek Murarka: Okay all of it.

R. Varadharajan: Yes.

Abhishek Murarka: Thanks.

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

Ashish Sharma: Good afternoon Sir. From a yield perspective can you just give a rough indicator segment wise what is the yield in home loan and LAP segment?



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R. Varadharajan: The home loan yield is 12.1%, home equity yield is 15.9%.

Ashish Sharma: How would it be comparing with the last year overall numbers Sir? Are we seeing sort some sort of a pressure on the LAP yields?

R. Varadharajan: Yields have remained stable year on year. We aren't seeing any pressure on the LAP front.

Ashish Sharma: In terms of overall outlook for the growth Sir, what sort of a sustainable normalized band at which we can grow given the size of the portfolio and given the underpenetrated size of the market?

R. Varadharajan: I think that 25-30% growth year-on-year should be sustainable in the medium term.

Ashish Sharma: Thank you Sir.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Good afternoon Sir. Now if I look at your proportion of LAP which is close to the 20% mark. How can this move in future?

R. Varadharajan: From here on the disbursements will happen in 80-20% proportion. Not that we are stopping LAP loans because we have reached 20%. This will ensure that we are able to maintain our average yields.

Nischint Chawathe: My question is actually more on ROA and ROE guidance?



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R. Varadharajan: I think ROA we will continue to remain somewhere around 2.5% and ROE it is currently around 16.3% and expected to go up over a period of time because of increase in leverage. It should go up year-on-year basis. Our endeavor is to take it to our pre-IPO levels in the coming years.

Nischint Chawathe: Sure. So this could take 3 years?

R. Varadharajan: Yes. I think it is a fair way to look at it.

Nischint Chawathe: Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Sreeram Viswamani from India Capital. Please go ahead.

Sreeram Viswamani: Good afternoon Sir. I had just one question. I wanted to understand your experience in the newer markets Gujarat, Maharashtra, and Madhya Pradesh with respect to growth, margins and asset quality?

R. Varadharajan: As far as the growth is concerned, it may not be at the same rate at which are growing in the southern regions. We are yet to penetrate into major parts of these states. We have just opened a couple of branches and doing business. So growth will happen over a period of time because right now we are trying to establish our brand in these states. For example, today Maharashtra accounts for 5% of our business and Gujarat accounts for just 1% of the business. It will go up over a period of time. As far as the returns are concerned, it is almost the



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same because we follow a uniform interest rate policy across the country.

Sreeram Viswamani: When we met last you had mentioned that asset quality has been very good in these regions, would it stay that way?

R. Varadharajan: Yes. In Maharashtra if you see the GNPA is only 0.30% basis and in Gujarat it is only 0.8%. Well below the overall average at 1.65%.

Sreeram Viswamani: What sort of branch expansion plans do you have in these states going forward?

R. Varadharajan: We will follow a cautious approach in our branch expansion in other regions. I think the immediate policy will be to consolidate our position in the existing states of Maharashtra and Gujarat before we actually open up into the other states. We would like to consolidate our position. Accordingly we will open our branches depending on the business opportunities available.

Sreeram Viswamani: Thank you so much. That is all from my side.

Moderator: As there no further questions I now hand the conference over to Mr. Jigar Kamdar for his closing comments.

Jigar Kamdar: Thanks to Mr. Varadharajan and the whole team of Repco Home Finance. We are extremely thankful for your time and for discussing the facts about the company. Thanks a lot Sir. Thanks to all the participants.



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R. Varadharajan: Thank you. Thanks all the participants

Moderator: Thank you very much. On behalf of Systematix Shares & Stocks that concludes this conference. Thank you for joining us. You may now disconnect your lines.