

## Transcript

### Conference Call of Repco Home Finance Limited

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#### *Presentation Session*

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**Moderator:** Good afternoon ladies and gentlemen. I am Honeyla, moderator for this conference call. Welcome to the Repco Home Finance Q4 FY16 earnings conference call hosted by Antique Stock Broking. We have with us today the senior management team of Repco Home Finance, represented by Mr. R. Varadarajan, MD, Mr. V. Raghu, ED and Mr. S. Bala, Investor Relations. At this moment, all participant lines 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 keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Digant Haria; thank you and over to you sir.

**Digant Haria:** Thank you and a very good afternoon to all of you. This is Digant from Antique Stock Broking. Today we have with us the senior management from Repco. Initially I will ask the management to take us through the Q4 performance as well as the full year performance. And after that we can open the floor for questions. So, over to you Varadarajan sir.

**R Varadarajan:** Good afternoon to everyone. And a very warm welcome to Repco Home Finance earnings conference call for the quarter and the year ended March 31<sup>st</sup>, 2016. Our performance in the reporting period was really satisfying. The loan book grew at a healthy rate. Spreads and margins remained stable, even as asset quality improved dramatically on sequential basis, the return to normal level is in line with the level seen last year. The loan book of the company grew 28% year on year, driven by growth in sanctions and disbursements of 12% and 20% respectively during the quarter, complementing the robust growth in both sanctions and disbursements seen in previous quarters. The balance between our exposure to the self employed segment and the salaried class stood at 58.8% and 41.2% respectively. Similarly, the share of housing loans in the loan books was maintained at 80.2%, non-housing loans accounted for the remaining 19.8%. Net profit was up by 26% during the quarter, driven by the net interest income growth of 29%, helped by higher realized income and tighter cost control. Cost to income stood at 19.3%.

GNPA stood at 1.31% and NNPA at 0.48%, resulting in a provision coverage ratio of 63.5%. To shore up the PCR, the company has decided to provide 40% for all substandard assets as opposed to the regulatory provisioning requirement of only 15%. This decision is expected to result in an even better recovery performance, as future communications by the department heads and the head office to branches will be unrelenting as it would cost even more to carry a substandard asset in the book, which is likely to lead our next target of sub 1% GNPA. These decisions result in a meaningful spike in provisions.

During the quarter, we earned a spread of 3% and a NIM of 4.6%. ROA and ROE in the same period were 2.3% and 18.7% respectively. Capital adequacy ratio stood at 20.77%, sufficient to fuel company's growth plans for the next two to three years. Our retail network as on March 31<sup>st</sup>, 2016 comprised of 135 branches and 15 satellite centers spread across eleven States and the Union Territory of Puducherry.

The financial highlights for the entire year FY16 were as follows. Income from operations during the year stood at Rs.880.1 crores, up 27% from the last year. Net interest income was Rs.303.9 crores, up 28%. PAT was Rs.150.1 crores, up 22% from the previous year. Cost to income ratio stood at 19.3%. Sanctions grew 29% to Rs.3800.8 crores, while disbursement also grew 31% to Rs.2851.2 crores. Loan book increased to Rs.7691.2 crores, registering a growth of 28% year on year. GNPA stood at 1.3% and NNPA at 0.5%, resulting in a PCR of 63.5%.

At this point I would like to thank all of you for joining the call. And we will now take your questions. One correction, our branch is consisting of 115 and 35 satellite centers, total location of 150. Thank you.

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*Question and Answer Session*

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**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.

Sir, the first question comes from Mr. Utsav. Please go ahead.

**Utsav:** Hello sir. I have couple of questions. First on the borrowing mix, I see we have increased our bank's borrowing to 72% and we are reducing our NHB exposure. Can you please provide how the borrowing mix will be for the financial year 2017?

**R Varadarajan:** Considering the market position, we are trying to play around with the various instruments what we have been borrowing, like it could be the bank's NCDs and NHB. We will be having.....I don't think I will be in a position to give an exact figure as to what will be my borrowing from the banks at this time of the year. But, we are likely to borrow around 2000 crores to 2500 crores this year. So, considering the market situation and our lending in the rural housing sector, the mix will be again the same like NHBs, banks and NCDs (not clear).

**Utsav:** Okay. And my second question is on the repayments. We seem a little on the higher repayments for this quarter, relative to the previous ones. So, is there any specific reason to that?

**R Varadarajan:** Refinance or repayments?

**Utsav:** Repayments.

**R Varadarajan:** Repayments to NHBs or prepayments to us?

- Utsav:** No, repayments from, like after disbursement we see the.....
- R Varadarajan:** So, you are talking about the repayment by the borrowers to the company?
- Utsav:** Right.
- R Varadarajan:** I think it will be more or less in tune with the previous quarters. I don't think we have seen any significant spike in the last quarter. It is the sequential manner if you see the earlier years, recovery is better than the last quarter. That process only happened this year also.
- Utsav:** Okay. Thanks sir. That is it from my side.
- Moderator:** Thank you sir. The next question comes from Mr. Parag Thakkar from HDFC. Please go ahead.
- Parag Thakkar:** Hi sir. Congratulations for a great set of numbers. Sir, just want to enquire that exactly who competes with you? For example, group finance or who competes with you in your space, in your geography and in your domain?
- R Varadarajan:** We consider whichever player was present in the region where we are present as our competitor. Like it could be in the South, it could be I have Sundaram Finance, I have Champion Homes, I have Group Financial in Karnataka or maybe in Tamil Nadu, Dewan Housing Finance is there. When we go into Maharashtra, we have HDFC also is there, Dewan is there and Group Finance is there. Same is the case in Gujarat. So, I think every player is our competitor.
- Parag Thakkar:** Okay. And sir, regarding the Government affordable housing program, where they are giving so many subsidies and interest rebates and all for 30 square meter in metro and in non-metro 60 square meters. So, what is your thought process on that and whether that is an addressable opportunity for you?
- R Varadarajan:** Yes, it is an addressable opportunity for us developers who are going to construct houses. There will always be buyers. And we can address the needs of those buyers. It still gives us a business opportunity.
- Parag Thakkar:** Okay. So, whether this will also give us a headroom to grow further in excess of whatever we are growing right now, 25%-30% in terms of loan book, whether this can accelerate our growth further?
- R Varadarajan:** It can provide the momentum. But, I think we will probably look at the quality and then also see the growth.
- Parag Thakkar:** Right sir. Will we have 25% growth from here on also, 25% to 30% which we have been doing since last?
- R Varadarajan:** We feel that about 25 plus growth should be feasible in the medium term.

**Parag Thakkar:** Okay. And are you seeing competition building some pressure on margins or you will be able to maintain your spreads?

**R Varadarajan:** I think we have been able to hold on to the spreads during the last couple of years. We will also try our level best to hold on to this in the coming years also.

**Parag Thakkar:** And sir, this NHB, borrowing from NHB, I think now you are allowed to have a spread of 3.5%. So, that will have some positive impact on the margins?

**R Varadarajan:** It should, definitely.

**Parag Thakkar:** Okay, thanks a lot sir. Thanks a lot.

**Moderator:** Thank you sir. The next question comes from Ms. Jahnavi Goradia from MOSL. Please go ahead.

**Jahnavi Goradia:** Good afternoon sir. Congratulations. Sir, wanted to understand in terms of branches if you see, we have added only eight branches in the whole of the year as compared to around twenty in FY15. So, wanted to understand two things; one, in terms of growth going ahead how do you see the mix between old and new branches contributing to the growth? And secondly, if you could explain the productivity graph of a branch, where you open at day zero one branch, in terms of improvement in productivity, how much time does it takes before it reaches the peak productivity?

**R Varadarajan:** I think in FY15 we have opened fifteen branches and not twenty. And then in FY16 we have opened about nine branches. And we have opened a bit more of satellite centers. And then in the last year we have opened only nine branches. In the sense, normally we have a policy to open a satellite center and then convert it into a branch, so nine branches. And then our policy is also to sort of strengthen our presence or consolidate our presence in the existing geographies. We are not addressing new geography as of now. Hence the reason why the (not clear). And out of this nine, five were opened in Tamil Nadu and four were opened in Maharashtra. And going forward also, we also will be trying to open about ten to fifteen branches again we are trying to open. And between the new and the old branches, more of the business comes from the old branches. So, the new branches in the Southern States takes about eight months to one year to breakeven, whereas in the non-Southern region it takes about eighteen to twenty four months for them to breakeven. So, I think most of the growth will be coming from the existing branches and with the new branches contributing to some percentage of the growth.

**Jahnavi Goradia:** Okay. So, in terms of the productivity, say you open a branch today and successively as the disbursements or the sanctions from the branch keep growing as time passes, so maybe in three years or four years, there will be some peak that a branch would reach in terms of how much it can contribute to growth. So, any color in that?

**R Varadarajan:** I understand. I understand. Normally the staff strength of a branch is four to five. On an average we want a productivity of around 10 crores per

employee. So, to reach a level of peak of 40 crores, normally it takes about four to five for a branch. I will add that some of the branches which are fifteen years old, right from the beginning they are still contributing with a growth of around 20%-25%.

**Jahnvi Goradia:** Okay. Sir, second question is, at what level of leverage would you be comfortable and then would you look at raising capital?

**R Varadarajan:** I think we will be comfortable around 9.

**Jahnvi Goradia:** Okay, perfect sir. Thank you so much.

**Moderator:** Thank you ma'am. The next question comes from Mr. Ankit Babel from Subhkam Ventures. Please go ahead.

**Ankit Babel:** Hello. Good afternoon sir. Sir, my first question is what is the difference between the spreads you make, between salaried and non-salaried?

**R Varadarajan:** I will tell you. The yield on the book is around 12.4 and the housing loan is yield is at 11.8. And the home equity is around 15.5. Within the housing loan, between the salaried and the non-salaried, there is a difference of about 50 basis points in the yield. In the home equity, there is no such differentiation between the salaried and the non-salaried, everybody is treated alike.

**Ankit Babel:** By home equity you mean the LAP portion, right?

**R Varadarajan:** The LAP portion, yes.

**Ankit Babel:** Okay. Sir, I was looking at your last three year's figures. Now, in FY14 your loan book from non-salaried was around 55%, I am excluding the LAP part and it has now come to around 59%. But, at the same time, your spreads have come down from 3.2 to 3. Your NIMs have come down and your ROAs have come down. And these loans come at a higher NPA volatility. So, ideally it should offset your, with a higher ease and higher spreads, but it is not visible in your numbers? What is the reason sir?

**R Varadarajan:** NIMs go down because of the use of the capital.

**Ankit Babel:** Okay, I agree. But, why spread has come down from 3.2 to 3.

**R Varadarajan:** Spread, from 2.9 to 3.2, it moves. We can't exactly fix the spread. We only said around 3. And I don't think it is very significant reduction.

**Ankit Babel:** Okay, it was 3.2 in FY14, spreads and from there it has come down to 3. I agree that part of it would be on account of, there was a cap on spreads to be charged on those particular loans from NHB. But now that spread has also been increased to 3.5, so going forward can we expect this 3 to move to 3.1-3.2.

**R Varadarajan:** Sometimes what happens is when there is a general reduction in the interest rates in the economy; it is expected to pass on certain benefits to the borrower. So, that will also have some impact on the spreads. And last two years

have seen a downward trend in the interest rates in the market. That has also resulted in the spread coming down from 3.2 to 3.

**Ankit Babel:** But sir, a lower interest rate trajectory will also result into a lower cost of borrowing for you. So ideally....

**R Varadarajan:** Yeah, definitely. It has happened. Cost of borrowings has come down from 9.83 to 9.4.

**Ankit Babel:** So, again the question is the same that why the spreads have contracted? In fact they should have improved, because the portion of the non-salaried has increased and your LAP has also increased by 100 basis points, from 18.7 to 19.8 from 2014 to 2016?

**R Varadarajan:** It has not contracted in the last one year. You just see the spread of as of FY15.

**Ankit Babel:** But I agree in the one year it has expanded by 10 basis points. I am talking about two years' timeframe.

**R Varadarajan:** It has actually increased from 2.9 to 3. Probably it may further go up, if we are availing more refinance under the rural sector with a spread of 3 ..... Earlier NHB was not giving this spread. Now only, they have increased. It was very less earlier, 2% only. Now it is 3.5. Probably that impact will be seen in the near future.

**Ankit Babel:** Okay. So, that is what I am asking sir. So, this can be at 3.1 to 3.2 is possible. And sir, what is your target on the cost income ratio? This has come down in this year.

**R Varadarajan:** Cost to income ratio, I think we should be operating somewhere around 20%, less than 20.

**Ankit Babel:** Okay. The same what we have witnessed this year?

**R Varadarajan:** Yes.

**Ankit Babel:** Okay. Thank you so much sir.

**Moderator:** Thank you sir. Sir, the next question comes from Mr. Kashyap Zaveri from Capital72 Advisor. Please go ahead.

**Kashyap Zaveri:** Congratulations sir on a good set of numbers and thank you for this opportunity to ask questions. I missed out in the beginning, you mentioned about the growth for next about two to three years, which can be sort of maintained, I missed out that number.

**R Varadarajan:** We are talking primarily around 25% growth.

**Kashyap Zaveri:** Okay, 25%. So, that is roughly the same as what we have been talking about for the past couple of years.

- R Varadarajan:** Yes.
- Kashyap Zaveri:** Okay. The second question is on the expense part. Any further ease of expensing which needs to be done through P&L?
- R Varadarajan:** No, ease of....we are coming out with a new scheme. The pricing is yet to be decided on that, where we have to get the approval of the shareholders. So, right now we have not any bigger cost for income now, right now.
- Kashyap Zaveri:** Okay and any quantum that you have decided on the new ESOP scheme?
- R Varadarajan:** We are working on a new scheme now.
- Kashyap Zaveri:** I understand that sir. What I am asking is that have we decided on the size of the scheme, like how many shares or how many options to be given? Let us say, today our capital is roughly about 62½ million shares, what percentage of that could be the new ESOP scheme?
- R Varadarajan:** It may be around 1 to 1½, though we have not decided. But, probably it will be less than 1.5. It is not spread over one; it is spread over three to four years time. 1.5 also maybe not in one year, another three to four years.
- Kashyap Zaveri:** Okay. And the third question is on this, you earlier mentioned about this increase in the substandard asset provisioning. So, as of FY16 can you give a break up of your NPAs in terms of the substandard, doubtful and loss and in both the categories, in individual as well as loan against property?
- R Varadarajan:** 61 crores is the substandard asset category, remaining 39 is in the doubtful category.
- Kashyap Zaveri:** Sorry, how much?
- R Varadarajan:** 39. Total 100 crores is the gross NPA, from that 61 crores are in the substandard category.
- Kashyap Zaveri:** This is for loan against property?
- R Varadarajan:** No, no, all on the book.
- Kashyap Zaveri:** Sorry. Can you repeat from the beginning, I missed out on the numbers? Substandard category is 51 crores, doubtful is 39.
- R Varadarajan:** 61.
- Kashyap Zaveri:** 61 and 39.
- R Varadarajan:** 39 is in the doubtful category, all D1, D2, D3 put together. From D1, D2, D3, we have already made 100% provisions. So, as a result if I have to increase my provision coverage ratio, it has to be attached to specific assets, it has to be only the substandard assets. I have to increase my provision coverage ratio. So, I will

start doing more provisions under the substandard category, that is what we have done, from 50% to 40%.

**Kashyap Zaveri:** Okay. And that cost came in this quarter?

**R Varadarajan:** Yeah, yeah. This quarter of this year.

**Kashyap Zaveri:** Right. Yeah, that is it from my side. If anything more, I will come back in the queue. Thank you so much sir.

**Moderator:** Thank you sir. The next question comes from Mr. Bobby Jarman from Southend Invest. Please go ahead.

**Bobby Jarman:** Hello. Your sanction growth has been lower than past quarter, any specific reason?

**R Varadarajan:** You are not audible. Could you speak a bit loudly?

**Bobby Jarman:** The loan sanctioned to this quarter has been lower than in the past quarters, any specific reason?

**R Varadarajan:** I think when you compare it quarter on quarter, yes; it was lower in the last quarter of the current year. Because, we have required a bit of run up during the previous quarter, that is the reason. And then we had about 300 crores sanctioned, but not disbursed amount in the previous quarter. So, we thought we will utilize those sanctioned units during the current quarter.

**Bobby Jarman:** Okay. Understood. And the second question is, the loan, the NPAs from the Tamil Nadu floods, have we seen the last of them or do they continue over the following quarters?

**R Varadarajan:** We have not had any significant impact of the Tamil Nadu floods on the NPA level.

**Bobby Jarman:** Okay. So, it is just business as usual.

**R Varadarajan:** Yes, it is business as usual.

**Bobby Jarman:** Okay. Thank you.

**Moderator:** Thank you sir. The next question comes from Mr. Nitin Jawate from Kotak Securities. Please go ahead Mr. Nitin.

**Nitin Jawate:** This is Nitin here. Am I audible?

**R Varadarajan:** Yeah, go ahead.

**Nitin Jawate:** Just wanted a couple of data points which you normally share in the call. If you could give the GNPA's in the housing and LAP separately?

**R Varadarajan:** Sure, we will do that. I think as far as the home loan is concerned, the GNPA was 1.15% and the home equity or the LAP portion was 1.96%. So, the average for the company was 1.31%.

**Nitin Jawate:** Okay. And last quarter if I understand rightly, the GNPA and the LAP was around 3.6% and housing loans was around 1.99%.

**R Varadarajan:** Right, correct.

**Nitin Jawate:** Sure. Can you give us the GNPA's in the salaried and the non-salaried segment?

**R Varadarajan:** Yeah. In the salaried segment under the home loans, the GNPA was 0.68%. And the non-salaried section, it was 1½%. The equity, mostly it was non-salaried, it is 2.23% was the non-salaried home equity portion and the salaried was 0.77% in the home equity side.

**Nitin Jawate:** Okay. And ticket sizes for home loan and the home equity?

**R Varadarajan:** Home loan ticket size was 13 lakhs and the home loan size was 12.6 lakhs. Home equity size was around 17 lakhs.

**Nitin Jawate:** Okay. Last quarter you had given a number of 15.2 lakhs on the home loan side.

**R Varadarajan:** That is on the incremental you are talking about. We have retained the incremental size yet to pay in the current quarter.

**Nitin Jawate:** Okay. Incremental remains exactly the same?

**R Varadarajan:** 10%, 15%, yes.

**Nitin Jawate:** Okay. And finally the disbursement breakup between home loans and LAP?

**R Varadarajan:** Disbursement home loan and the LAP. Home loan was 6165 crores and home equity was 1526 crores, outstanding amount.

**Nitin Jawate:** No, disbursements for the year; disbursements for the year and for the quarter?

**R Varadarajan:** For the quarter, the disbursement on the housing side was 651 crores and the home equity, it was 246 crores during the quarter. I think during the year, probably I will send it to you separately.

**Nitin Jawate:** Okay, great. Thank you very much and all the best.

**R Varadarajan:** Thank you.

**Moderator:** Thank you sir. The next question comes from Mr. Amit from Invesco Investment. Please go ahead.

**Amit:** For your LAP, that is home equity books, at the time of sanction what is typically the LTV?

**R Varadarajan:** What is typically the?

**Amit:** LTV.

**R Varadarajan:** LTV. At the time of sanctioning it could be around 50% and 60%.

**Amit:** 50% to 60%, is it?

**R Varadarajan:** Yeah.

**Amit:** And when you basically value the existing LAP property, the valuation is done based on the stamp, Ready Reckoner rates or the prevailing market rates?

**R Varadarajan:** It is done based on the market value.

**Amit:** Prevailing market value, okay. And you also mentioned the reason as to why the sanctions were slower for this quarter as compared to your previous trends. I could not get it. Can you please repeat the reason?

**R Varadarajan:** Basically what happened, in the previous quarter we have run up quite a bit of sanctions. During Q3 of the current quarter, my sanctions were up by 49% and my disbursement was around 50%. And then there was a gap, where we had the excess sanctions during the previous quarter and the disbursements were lower by about 300 crores. So, the sanctioned amount was available and that was used during the fourth quarter. That sanction was used in the fourth quarter.

**Amit:** Okay. So, this is not an indication of any slowdown in growth?

**R Varadarajan:** No, not at all.

**Amit:** Okay. And the last question is that, if we look at the change in the gross NPA from the third quarter to the fourth quarter, specifically on the home equity side, first of all the swing from the second to third was very large in LAP and once again from the third to fourth it was equally large, the swing I am talking about in terms of gross NPA and that too in the home equity. Now, is this the normalized manner in which this portfolio will operate in the future also that there will be huge spikes in third quarter and then once again huge....?

**R Varadarajan:** We have been experiencing this during the last fifteen, sixteen years and probably this will continue for some more time.

**Amit:** No, home loans it was there, but home loans the swings were not so, the end outcome in terms of home loan was not as large as 3.5.

**R Varadarajan:** Most of the time the swings always happen in the LAP portion, the home equity side.

**Amit:** Yeah, that is also, in home equity also similar kind of swings will happen, that is the understanding?

**R Varadarajan:** Yes.

**Amit:** And this fourth quarter is it purely the upgradation of accounts or it is also the securitization and selling of assets which resulted in....?

**R Varadarajan:** No, no securitization, no upgradation, nothing. It is pure recovery. It is pure cash recovery. No upgradation and no securitization.

**Amit:** Okay. So, basically this 163 to 100, it is purely on account of cash recovery, without any repose of assets?

**R Varadarajan:** (Not clear).

**Amit:** There was no huge sale of assets or something like that?

**R Varadarajan:** No, not a single asset has been sold till date.

**Amit:** So, can you also then provide the amount of write offs that you must have done over the last few years, at least for this year as well as the previous year? What is the loss, ultimate loss that you must have booked?

**R Varadarajan:** Till end of last year it was somewhere around 5 crores is what we have written off as of the bad debts. This year we have written off about 30 lakhs.

**Amit:** Okay. So, last year was 5 crores and this year is 30.

**R Varadarajan:** That is the cumulative figure till the end of last year.

**Amit:** Okay. Till last year cumulative was 5 crores?

**R Varadarajan:** If you want this year, we have added another 30 lakhs.

**Amit:** Okay. That is the only loss that has got recognized in that. Everything else whatever is the change, it is purely physically accounting. So, there are NPAs which go up and then once again there is recovery that is subject to....that's the way it happens. Okay, thanks.

**Moderator:** Thank you sir. The next question comes from Mr. Roshan Chutkey from ICICI Pru AMC. Please go ahead.

**Roshan Chutkey:** Thank you so much for taking my question. Sir firstly, from the macro perspective, if I look at the real estate transactions in the market, that data is pretty weak. But, we see NBFCs like yourself doing pretty well in the market. Where is the dichotomy sir, if you can explain that to me?

**R Varadarajan:** Basically we operate in the tier-II, tier-III markets, where the people already have their land on which they do the construction of houses. If you see my portfolio, 44% of my portfolio is for self constructed houses; around 50% is for the self constructed houses. So, that is why we don't find transactions in the market, but then we do give for self construction of houses by the individuals, where they already have a land in their name.

**Roshan Chutkey:** Right. But, that data should be getting captured.

**R Varadarajan:** That accounts for my growth also mostly.

**Roshan Chutkey:** So, where can I get that data? Can I look at the stamp duty collections? That data just doesn't show that, it is very muted.

**R Varadarajan:** That is what I am saying; there is no stamp duty here. When you give for construction of the houses, where the land is already in their name, it doesn't go to the registrar's office for registration, only we give for construction.

**Roshan Chutkey:** Doesn't it also fall in the question of affordability is also another question, right? Are people able to afford houses? Everywhere, wherever casually when I speak to my relatives or my colleagues, you get to hear that prices are pretty expensive across the board, across the tier-II, tier-III towns.

**R Varadarajan:** That is what my average ticket size is around Rs.13 lakhs-Rs.15 lakhs and that comes under the affordable segment. Without affordability we don't give them. We also look into the IIR, the installment to income ratio and where we have been able to recover the money.

**Roshan Chutkey:** Sure, okay. And on the churn part, if I look at your disbursements the last three years, it adds up to a good almost 7000 crores, which means that practically you don't have any loan which is disbursed in the year FY13. FY12 for sure you don't have any loans carrying in your book currently. How soon is the books churning?

**R Varadarajan:** I don't think so. The entire disbursement doesn't add to your loan books. Some there are some repayments and prepayments. Therefore on an average the loan remains in my books for a period of eight to nine years. But, we are in 2015; I have a loan sanctioned during 1999. What is wrong in it? And all the disbursement doesn't add to my loan books.

**Roshan Chutkey:** Sir, all the disbursements don't add to your loan book.

**R Varadarajan:** How do you see? You cannot simply say last three years disbursement is added, it is more than loan book that means the loan is not remaining for the earlier years, nothing like that. That is what I want to say.

**Roshan Chutkey:** But that means clearly prepayments have happened .....

**R Varadarajan:** Definitely there will be repayments and prepayments. Both are there. There are normal regular repayments are there (not clear).

- Roshan Chutkey:** Repayment of.....
- R Varadarajan:** It is a source of rupee per month to me.
- Roshan Chutkey:** Are you seeing a significant amount of prepayments also?
- R Varadarajan:** There are prepayments also will be there. It is bound to be there. When you sanction up a loan, it remains in your books for eight to nine years, so there has to be prepayment. Normal psychology is that they are debtors. When the loan amount comes down after six or seven years, they will close the loan.
- Roshan Chutkey:** Sure. And what is your disbursement figure over the last two fiscals?
- R Varadarajan:** Last two fiscal's disbursement figure?
- Roshan Chutkey:** Yeah, home equity. LAP
- R Varadarajan:** I don't have that data readily for the last two years. We will get back to you on an early basis.
- Roshan Chutkey:** Sure. And composition of LAP between salaried and non-salaried, what is the breakup?
- R Varadarajan:** Mostly it is all non-salaried only.
- Roshan Chutkey:** Non-salaried only, okay. And one last question sir, how come you are very confident that GNPA will reduce going forward? I thought it is a cyclical....it is in cycles for GNPA for the business generally?
- R Varadarajan:** Going forward is that we are having more recovery efforts, so we expect the GNPA to go down. And secondly, let me tell you one thing, my LAP portion, the average ticket size is around 15 lakhs-16 lakhs, where I have a good margin of 50% to 60% in the LTV. It is a small ticket size loan. And secondly my LAP constitutes a category called commercial real estate that is people who are going to have more than two houses. They are housing loans. But, since they have more than two houses, they will be clubbed under the home equity loan or the LAP loan. It cannot be considered as the housing loan as per the regulatory requirement. Similarly the loans given for acquiring plot alone, is also considered as a LAP loan, not as a housing loan. So, all these things add together to my LAP loan. It is not purely something given only for a purpose.
- Roshan Chutkey:** Okay. And are you doing any balance transfer?
- R Varadarajan:** No, no.
- Roshan Chutkey:** And any increase in LTVs?
- R Varadarajan:** Increase in LTVs?

**Roshan Chutkey:** Generally are you seeing any increase in LTVs in your LAP anything crossing the 50% to 60% mark?

**R Varadarajan:** No, we have been able to maintain that on an average the book between 50% and 62% for the last so many years.

**Roshan Chutkey:** Okay. Thank you so much sir.

**Moderator:** Thank you sir. The next question comes from Mr. Hitesh Gulati from Haitong. Please go ahead.

**Hitesh Gulati:** Sir, thank you for taking my question. Sir, can you just please provide the reasoning for why the gross NPA had moved up in Q3 and it again came back in Q4? That is my first question. And the second question is, in this salaried and non-salaried; the difference in yield is only 50 basis points. But, the gross NPA differential is quite substantial, 0.7% and 1.8%. Can you just throw some light on that, if you are comfortable with such NPA levels in those portfolios?

**R Varadarajan:** As far as the movements in the NPAs are concerned, quarter on quarter this has been the experience we have seen for the last sixteen years. That is something to do with the expenditure pattern of the borrowers we have and secondly, what is their seasonality in their income. Second, I think as of now we are very comfortable with this set of a differential in the interest rate. I have given only the average yields, it varies. Though it is 50 basis points is the basic difference, it varies from customer to customer, depending upon the rating which we have with each of the borrowers. It goes along with the risk, which we envisage with a particular borrower. The pricing is done based on that.

**Hitesh Gulati:** Okay sir. This gross NPA seasonality is not specific to Q3, but you are saying it can move up in certain quarters and then come back in the.....?

**R Varadarajan:** Q1 and Q3, if you have seen over the last sixteen years, Q1 and Q3 they will go up. Q2 and Q4, they will come down. It is the pattern which we have seen over the last sixteen years.

**Hitesh Gulati:** Okay sir, any specific reason for this?

**R Varadarajan:** Basically something to do with the expenditure pattern of the borrowers, because the priority of the expenditure varies between the borrowers. Q1 and Q3, they have specific expenditure to which they give priority first and the repayment of the housing loan comes next to that.

**Hitesh Gulati:** Okay, sure. And sir, just last one query. I think you have mentioned loans given on acquiring plot alone. As far as I was thinking, I think HFCs are not allowed for giving loans for acquiring land. If there is something I have heard wrong or what I am saying is not correct sir?

**R Varadarajan:** I am not sure about NBFCs, but HFCs there is no restriction on giving loans for plot alone for housing finance companies. And also we take an undertaking from the borrowers that he will do the construction within a period of thirty six months.

**Hitesh Gulati:** Okay. So, you can buy a plot of land that is what you are saying, right?

**R Varadarajan:** Hello? Hello?

**Hitesh Gulati:** Yes sir. You are saying, you can give loans to acquire plot alone?

**R Varadarajan:** We can give loans for plot alone and then we take an undertaking that they will do the construction with thirty six months.

**Hitesh Gulati:** Okay, thank you sir. That is it from my side.

**Moderator:** Thank you sir. The next question comes from Ms. Ritika Dua from BNK Securities. Please go ahead.

**Ritika Dua:** Just on the growth front, can we have some sense, now that we are almost close to the internal mix which we wanted to be at, like not exceeding 20% in LAP, then obviously how do we see this growth in both the segments going forward?

**R Varadarajan:** It remains the same, 80-20. The growth also will be in the ratio of 80% in the housing loan 20% and then the LAP loan.

**Ritika Dua:** Right sir. In this light sir, how do you see your ticket size really going forward? Because actually I missed out on one front, when you were mentioning the incremental ticket sizes in LAP and housing, can you first maybe pardon that one sir?

**R Varadarajan:** You want the incremental ticket size. Incremental ticket size for the home loan is 15.5 lakhs and home equity loan that is LAP portion is around 28 lakhs for the quarter for this quarter. I think the same trend will continue for the coming quarter also. That is what we are expecting.

**Ritika Dua:** Alright sir and sir, any guidance on any of the earnings parameter? Do we have any targets in terms of ROAs going ahead?

**R Varadarajan:** No, we do not have any guidance. But, our endeavor is to maintain about 2.2 to 2.3, in which we are lying under ROA, and on ROE also the same levels. So, it will slightly improve further now, that is what we are expecting for the next quarter.

**Ritika Dua:** Alright sir. Thank you so much sir.

**Moderator:** Thank you ma'am. The next question comes from Ms. Sneha Ganatara from Shipkon. Please go ahead.

**Sneha Ganatara:** Hello sir. Considering the current provision that you have done from substandard, from 50% to 40%, can we see the same trend for the next coming years or are we seeing the risk of the NPAs also on that?

**R Varadarajan:** Naturally, number one, normally the provisions we decide, they have to be consistent, that is accounting standard. And we may have to further raise it, if we want to take it to at least 70% PCR, it is our internal gain. Let us see. We would like to take forward this PCR at least to 70% next year. In that case either we have to maintain this 40 or sometimes we may have to increase it also.

**Sneha Ganatara:** Okay and any geographical risk on the NPA pan servicing?

**R Varadarajan:** No, we haven't seen any major shift in the NPA level across the geographies. I think it is more or less consistent over the years.

**Sneha Ganatara:** Okay. Thank you very much sir.

**Moderator:** Thank you ma'am. The next question comes from Mr. Anurag Mantry from Jefferies. Please go ahead.

**Anurag Mantry:** Good afternoon sir. Just one broad question. What was the rationale behind the extra provisioning you are looking to do going forward? Is it because you see a lot of competition in the market and you see any asset quality deterioration because of that or is it normally easing of NPAs?

**R Varadarajan:** No, no, quality deterioration, not on that front. Normally everybody expects the PCR. Provision coverage is always, we have to take it up, that is all. It is to project a better balance sheet, nothing else. Even if we make only 15% in the provisioning, it is sufficient actually as per the NHB norms. The additional provision doesn't mean that there is a quality deterioration. It is only strengthening the balance sheet, nothing else.

**Anurag Mantry:** Okay. But, are you seeing any stress and hence it is a prudential measure or is it just to strength the balance sheet?

**R Varadarajan:** It is only a prudent, because we have been telling and in fact many people are advising us also that PCR should be slipped. Some people say 100. Some of the housing finance companies have a PCR of 100% even today.

**Anurag Mantry:** Right sir. Thank you.

**Moderator:** Thank you sir. The next question comes from Mr. Amey Sathi from TATA Mutual Fund. Please go ahead.

**Amey Sathi:** Hello? Hello?

**R Varadarajan:** Yeah Amey.

**Amey Sathi:** Thanks a lot for the opportunity. Sir, just one question. The incremental ticket size you talked about for LAP is around 28 lakhs?

**R Varadarajan:** Yes, during the last quarter.

**Amey Sathi:** Sir, in the third quarter it was around 18 lakhs and second quarter it was around 23 lakhs. Again in the first quarter it was around 18 lakhs.

**R Varadarajan:** You are right, yeah.

**Amey Sathi:** Why there is so much of volatility in the ticket size for the LAP?

**R Varadarajan:** There is nothing intentional sir. It happens. It happens. That is the demand.

**Amey Sathi:** Okay. Anything to do with some geographical....something to do with that or is it coincidence?

**R Varadarajan:** No, no, it is coincidence.

**Amey Sathi:** Okay, great sir. Thank you.

**Moderator:** Thank you sir. The next question comes from Mr. Nidhesh Jain from Invespec. Please go ahead.

**Nidhesh Jain:** Hello sir. What is the tenure of LAP loans? You mentioned that the tenure of housing loan is around seven to eight years. What is your experience with respect to LAP loans?

**R Varadarajan:** Almost the same, seven to eight years only there also for the LAP loans. But, we give a loan, at the time of sanction. It is for a period of ten years.

**Nidhesh Jain:** But, on an average it stays on your book for seven to eight years?

**R Varadarajan:** Seven to eight years.

**Nidhesh Jain:** Okay. And secondly sir, in provisioning for the full year we have made provision for NPA of around 29 crores. And increase in provision stock, the provision stock has increased from 49 crores to 61 crores. There is a change of 15 crores versus the provision made of around 29 crores. So, there is a difference of around 14 crores, which is not reflected in provisions.

**R Varadarajan:** Yeah, you are right.

**Nidhesh Jain:** So, if I look at your provision for NPA, NPA you have made a provision of around 29 crores. But, the increase in provisions on YoY basis is around 15 crores. So, what explains the difference of around 14 crores?

**R Varadarajan:** The difference is it is a prudent tax planning measure. We have given a technical write off of 14 crores now. (Not clear) write offs in the books on the branches. Only in the balance sheet we have technically we have written off about 14 crores, which gives you the tax benefit, which is permissible under the tax law.

**Nidhesh Jain:** Okay. That is for tax planning and not the provision for...

- R Varadarajan:** Yeah, yeah, for tax planning.
- Nidhesh Jain:** Okay sir, okay. Thank you sir. That is it. That is all from my side.
- Moderator:** Thank you sir. The next question comes from Mr. Manish Agarwal from Phillip Capital. Please go ahead.
- Manish Agarwal:** Thanks for the opportunity, couple of questions. One is, in terms of credit cost, this year was almost 40 basis points. And if I look at last couple of years, that has been somewhere around 20 basis points. So, how should we read that? Is it that the 40 basis points is the new normal for us going forward?
- R Varadarajan:** Actually it is not the credit cost. It is only an additional provision, because of that the credit cost has gone up. As I explained to you earlier, we want to take forward this PCR, provision coverage ratio. Because of that we made additional provision under requirement, so that has added up the credit cost.
- Manish Agarwal:** No, no, if you look at it on the year on year basis, the coverage remains the same. I am talking about it from the full year perspective. Because, last year also the coverage was same and this year also the coverage is same. So, if I compare FY15 and FY16....?
- R Varadarajan:** That is what we told you, because of the tax planning what we have made in the technical write off side, so that also you have to add. That is also cost.
- Manish Agarwal:** Fine. Secondly, on the LAP side, have you reduced your lending rates of lately?
- R Varadarajan:** We have been offering finer rates now, because otherwise we cannot compete in the market.
- Manish Agarwal:** So, what would be our incremental lending rates in the LAP?
- R Varadarajan:** Somewhere between 15% and 15½%.
- Manish Agarwal:** 15½%?
- R Varadarajan:** Yes.
- Manish Agarwal:** And can you provide the breakup of your borrowing of NSB under various schemes like rural housing fund and urban housing fund, is it possible right now?
- R Varadarajan:** I don't think I would be in a position to give it today, breakup of all the refinance schemes. But, of the refinance what we have availed from NHB, 60% to 65% comes under the rural housing scheme.
- Manish Agarwal:** 50 to 55, okay.

**R Varadarajan:** 60 to 65. It is approximate figure, the ballpark figure I am giving you right now over the call.

**Manish Agarwal:** Okay. So, under this scheme you have the cap of 3½%, correct?

**R Varadarajan:** Yeah, 3-1/2% spread now.

**Manish Agarwal:** Okay, fine. Great. Thanks.

**Moderator:** Thank you sir. The next question comes from Mr. Sandeep Jain from Sundaram Mutual. Please go ahead.

**Sandeep Jain:** Hi sir, one question on your LAP borrower, if you can give us the business activities of your LAP borrower, top five business activity on the total exposure and some geographically spread of that LAP exposures? That is it.

**R Varadarajan:** I think if you are asking for geographical this thing, I don't have the statement readily with me of the LAP portion, which probably we will be the portion to share it with you separately on that. And as far as first question is concerned, they are basically...we have been explaining most of my borrowers are called retail traders. And some of them are, they run restaurants. Some of them, they have lodges. So, this is the broad category of borrowers to whom we give the LAP loan.

**Sandeep Jain:** So, when you are saying the ticket size is 28 lakhs and LTV of 50%, so somewhere around 60 lakhs, 50 lakhs-55 lakhs, 60 lakhs of property has been given (not clear). So, these are all of the retail traders kind of nature right?

**R Varadarajan:** Yes.

**Sandeep Jain:** Okay. Hotels and all those things would be top profiles?

**R Varadarajan:** Small restaurants.

**Sandeep Jain:** Okay, fine.

**Moderator:** Thank you sir. The next question comes from Mr. Sarvesh Gupta from ProVantage Capital. Please go ahead.

**Sarvesh Gupta:** Thanks a lot for giving the opportunity sir. Actually I might have joined late, so might have missed the commentary in the initial part. I just wanted to ask one question. Now a lot of your competitors in the same ticket size segment have kind of issued some sort of red flag, because of increasing competition in this segment, which has led to pressure in the yields. But, when I look at your results that doesn't reflect it, so how would you explain that?

**R Varadarajan:** Explanation for the maintenance of the spreads, I think constantly we have been looking for cheaper resources to raise money, to reduce my cost of funding. Lending rate today is decided by the market. The competition is there, as you rightly observe. And we have been able to reduce our cost of funds over the

previous year and that is why we have been able to maintain the spreads. For new company to raise resources at a cheaper rate is a question. And we have been there, and for them to lend at that yields, that is why there could be a pressure on the spreads for them. They also have to maintain the spreads, so their lending rate should be probably either equal to us or more than that.

**Sarvesh Gupta:** Understood. And how is the phenomenon of prepayment playing into your borrowers profile, because there is a pressure, competitive pressure in the market. So, we have also seen a parallel increase in the prepayment rates. So, is that affecting you in any sense? And how do you see that in the segment that you operate in?

**R Varadarajan:** We factored that also in the prepayment this thing. We take an average and then we do expect that some takeovers will be there, especially after when we cannot charge any prepayment penalties and all those things. People have a tendency to take over the loans. Just anybody drops the interest rate, they like to go there. Similarly we also have some customers, whom we like to take over from other institutions. I think we all factor all these things and then we decide on the policy for the coming year.

**Sarvesh Gupta:** Understood sir. So, what has been your prepayment rate in the Q4 and how has the trend been on that?

**R Varadarajan:** I think our prepayments have been in the range of about 8% to 10%.

**Sarvesh Gupta:** And has it been increasing, if I take Q4 of last year?

**R Varadarajan:** No, we haven't seen any increase at all in that.

**Sarvesh Gupta:** Understood sir. Thanks a lot for the questions and congratulations for a good set of numbers.

**Moderator:** Thank you sir. Sir, there are no further questions and now, I handover the floor to Mr. Digant. Please sir, go ahead.

**Digant Haria:** Sir, one question from my side. Every quarter you give this data; can you give us State wise NPAs, the top three States, Tamil Nadu, Karnataka and Maharashtra?

**R Varadarajan:** I will give it to you. Tamil Nadu is somewhere around 1.1%. And Karnataka 1.2 and then Maharashtra is 0.6.

**Digant Haria:** Maharashtra would be?

**R Varadarajan:** 0.6.

**Digant Haria:** 0.6. And Karnataka?

**R Varadarajan:** Karnataka is 1.2.

**Digant Haria:** And sir, what part of the Maharashtra book is still salaried, because I believe we did a lot of salaried customers in Maharashtra, right?

**R Varadarajan:** 90% is salaried class in Maharashtra.

**Digant Haria:** Okay. Sir, it is still 90%. So, in Maharashtra are we trying to follow any different model, because elsewhere we really have around 60% as the non-salaried portion, right?

**R Varadarajan:** It all happens. We don't follow any particular this thing for Maharashtra. It just happens. In Maharashtra, we have more salaried class. And it is based on the local demand.

**Digant Haria:** Okay sir. And lastly, could you just give us the broad trends that you see in the State of Tamil Nadu, because we are just having the elections? And how do you see the housing market especially in Tamil Nadu State for the next one or two years?

**R Varadarajan:** I don't think the housing market will have any significant impact because of the elections or something like that, especially when it comes to small housing, like affordable housing and all those things, I don't think the impact is going to be very severe, depending on whoever is going to form the Government next.

**Digant Haria:** Okay. And in general how do you see the trend in the Tamil Nadu market? Is it saturated? Do you still see scope to grow 25% even in Tamil Nadu for the next one-two years?

**R Varadarajan:** I think it should be possible. Tamil Nadu market is also, we still have a lot of things to do in the penetration. Like for example, in Tamil Nadu, we have still lot of areas to cover. And Andhra Pradesh we are present only in ten districts. Tamil Nadu we are present only in four districts. Gujarat we are only in seven. Karnataka we are only in twenty two districts. We have lot of way to cover. I think we can see a lot of penetration possible in these States.

**Digant Haria:** Alright sir thanks. That is it from my side. So, thank you everyone for joining the call and taking out time. And thanks to the management for taking out time and answering the questions for investors and analysts. So, thank you all and have a great evening.

**R Varadarajan:** Thank you from our side also. Thank you. Bye.

**Moderator:** Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. Thank you and have a wonderful evening everyone.

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**Note:** 1.This document has been edited to improve readability.  
2. Blanks in this transcript represent inaudible or incomprehensible words.