



## “Repco Home Finance Limited Q2 FY 2017 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Repco Home Finance Bank Q2 FY 2017 Earnings Conference Call, hosted by Asian Market Securities Limited. 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. Rakesh Shinde of Asian Markets Securities. Thank you and over to you Sir!

**Rakesh Shinde:** Thank you. Good afternoon everyone. On behalf of AMSEC, I welcome you all the Q2 FY2017 earning conference call for Repco Home Finance Limited. We have with us today Mr. Vardarajan – Managing Director of the Company, Mr. V. Raghu – Executive Director of the Company, Mr. K. Ashok – Chief General Manager, and Mr. T. Karunakaran – CFO and Mr. Bala, Assistant General Manager of the Company. I now request Mr. Vardarajan to take us through the quarterly results and then we shall begin with the question and answer session. Over to you Sir!

**R. Vardarajan:** Thank you. Good afternoon everyone and a very warm welcome to the Repco Home Finance Limited Earnings Conference Call for the quarter ended September 30, 2016. Our performance in the reporting period was satisfying say for an aberration on the asset quality front. The loan book grew at a very healthy rate. Spreads and margins remain stable even as asset quality as I told you earlier.

Growth and sanctions were robust at 22% even on a higher base while the disbursement grew at 13%. The balance between our exposure to the self-employed segment and the salaried class stood at about 59.7% and 40.3% respectively. Similarly the share of house loans in the loan book was maintained at about 79.3%.

Net profit was up by 17% during the quarter driven by net interest income growth of 22% and tight and controlled cost to income stood at 16.3%. GNPA's stood at 2.37% and NNPA at 1.31% resulting in a provision coverage ratio of 45.3%. During the quarter we earned a spread of 3% and a NIM of 4.4%.

ROA and ROE for the same period was 2.2% and 18.8% respectively. Capital adequacy ratio, CAR, stood provisionally at 20.30% sufficient to fuel the company's growth plans for the foreseeable future.

Our retail network as on September 30, 2016 comprised of 121 branches and 32 satellite centers spread across 11 states and the union territory of Puducherry.

The financial highlights for the half-year FY2017 are as follows: Income from operations during the year to that Rs.506.4 Crores up 22% from the last year. Net interest income was Rs.174.2 Crores up 24%. Profit of the tax was Rs.85.2 Crores up 23% from the previous year.

Cost to income ratio stood at 16.3%. Loan book increased to Rs.8468.8 Crores registering a growth of 24% year-on-year. GNPA stood at 2.37 and NNPA at 1.31% resulting in a PCR of 45.3%.

The recent measure by Government of India demonetizing Rs.500 and Rs.1000 currency note we believe may not have the very serious impact on the business of the company. We believe that in the long run it is going to be a gain. We have a conservative policy of sanctioning loans especially in the LAP segment where we mostly cap the LTVs at 60%.

To that extent we believe that outstanding loans would be adequately covered by the security value. Moreover the correction in prices that may be taking place in the residential property market after this due high measure would make housing affordable and presents an opportunity to do more business. At this point, I would like to thank all of you for joining the call. We will now take your questions.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from Dhruvesh Sanghavi from Prospero Tree. Please go ahead.

**Dhruvesh Sanghavi:** Sir I just want to understand what is our LAP portfolio in terms of percentage of total loans?

**R. Vardarajan:** It is about 20.7%.

**Dhruvesh Sanghavi:** In how many numbers of accounts these loans must have been given or if we can tell the average ticket size in this case?

**R. Vardarajan:** The average ticket size on the home equity is around 18.3 lakhs as at the end of September 2016 and the number of accounts will be somewhere around...

**Dhruvesh Sanghavi:** No, I was actually looking for only LAP portion?

**T. Karunakaran:** The average ticket size is 18.3. You can do the back calculation.

**Dhruvesh Sanghavi:** But we hear that there are many large accounts also. Can I ask you in a different way that let us say more than 1 Crore of loans given in this case would be what number of accounts if you can share that kind of data?

**R. Vardarajan:** You want exactly the number of accounts having more than 1 Crore right.

- Dhruvesh Sanghavi:** Yes, approximately is okay. I just want to take a sense on what can be the size of that kind of that loan?
- R. Vardarajan:** We have more than 11000 Crores under LAP and probably the number of accounts having more than 1 Crore could be around 200.
- Dhruvesh Sanghavi:** As we said in the opening remarks that we do not think that there will be any impact due to a potential prize fall one number and second you said that the cash conversion will also not have any impact, but most of these players would have a decent amount of payment received crisis at their own business levels because practically the business will become standstill, so how will they keep servicing us in the next three to six months. I mean on what basis we are saying that we will not have any issues.
- R. Vardarajan:** See the business of the borrowers are not going to come to a standstill because most of my borrowers who have taken money they sell all essential items. They are all grocery store owners. It should be a short-term problem into getting the payment. Probably they also may have to insert those machines for point of sales.
- Dhruvesh Sanghavi:** Sir, but even if there is a short-term problem with their end our numbers will start showing up in that quarter and we as investors may start panicking on that. Is that the right way?
- R. Vardarajan:** No. I will explain to you how it works. See our cash collection from these types of borrowers particularly small borrowers in the tier two and tier three cities, it accounts for about 20% of our total collection. So these borrowers they make the monthly payments based on their cash collections. For the third month this has come only after the repayment for the last month has ended. Fortunately, if it is in the end of the month, I say this month's collection will be affected. Now we are only on 10<sup>th</sup>. Because 20 days time so the Government and RBI have assured before the end of the month these things will get settled so even if there is a small repayment crisis of these 20% borrowers only particularly at the end of the month by that time first week they will pay. So by the end of the quarter we very strongly believe they may be any impact because of that. That is our belief.
- Dhruvesh Sanghavi:** Last question on this side. You said generally we cap LTV to 60%, but how do we take in account the repayment capacity based upon the potential cash flow of that business. I mean if you can explain in simple words about that process also?
- R. Vardarajan:** When we grant a loan, we just do not go by you know the security value. What we do is we do a cash flow analysis even under the last portfolio. What we do for housing loan.
- Dhruvesh Sanghavi:** Would it be like five times yearly cash flow or mean some broader benchmark on that type?

- R. Vardarajan:** It is IIR the installment income ratio, which you work out. We have a monthly cash flow estimated for the borrower his income and also his expenses. So you arrive at a final disposable income, which could probably act as an EMI and since based on that only we sanctions the loan.
- Dhruvesh Sanghavi:** Thank you.
- Moderator:** Thank you. The next question is from Dhaval Gada from Sundaram Mutual Fund. Please go ahead.
- Dhaval Gada:** Thank you. Sir first question I understand that you mentioned that you expect some property prize corrections, so I was just wondering what it would lead in terms of asset quality impact and secondly would it impact our medium term growth I just wanted to get the thoughts on this part?
- R. Vardarajan:** I will explain to you. See the reduction what we have told perception in the market is see normally in the case of real estate transactions there are some cash portions also so far. We believe that may be eradicated in due course and the entire amount will be duly registered as value itself, but because of that we believe that there may be some fresh corrections downfalls may be about 10% to 15% at least minimum we are expecting, so that will become affordable to the customers now. Therefore the demand will only increase because of that in the long run that is before the end of the year, we believe that the customers will get the benefit and more and more people would like to buy the property and then you know come for the loan that is the expectation.
- Dhaval Gada:** Okay and no impact on asset quality because of these prize corrections is what you assess at this point correct?
- R. Vardarajan:** Definitely, asset quality may not deteriorate because of the prize. Prize correction will only lead to more demand.
- Dhaval Gada:** Sir secondly in terms of LAP have you sort of taken an measures or planning to take any measures in terms of large ticket LAP exposure above 1 Crore specifically. Any plans to take some credit measures on this right?
- R. Vardarajan:** Yes, you are right. We made a deeper analysis about our NPA level and we found only in the case of large ticket LAP though the percentage is minimum, they contribute more for the NPA. Therefore, what we have taken a measure is we will not focus or concentrate on those large ticket loans, so we will continue to focus on below 50 lakh loans that is the decision we have taken. As far as the existing loans are concerned we very strongly believe in fact we find some of the customers who are actually NPA at the end at the quarter they have subsequently come and paying now. Therefore, we feel that we will be able to collect in those accounts, but still because of the cash flow mismatch in some of the

quarters it becomes NPA, but actually there is no real loss there, but they have to technically classified as NPA and then give some concern for us. That will be decided you know. We will not focus on those accounts in the future. We will concentrate on the ticket size where we are very comfortable.

**Dhaval Gada:** Sir last question. If we sort of do not lend into this above 50 lakh or 1 crore segment would it impact our yield to that extent because I understand the yields in the segment would have been slightly better. Is that correct?

**R. Vardarajan:** Actually I am telling yield in those segments only is lesser than the lower ticket. The lower ticket they are ready to pay because normally we charge around 15% for the LAP, but in the larger ticket size loan you know they always come with a trend, you will have balance transfer will be there to some other institutions. They will come and demand for a final rate of interest and we get a lesser income in those accounts.

**Dhaval Gada:** The differential would be Sir broadly?

**R. Vardarajan:** Broadly some 1%. They always want a final rate of interest of 1% in the case of big-ticket size loans.

**Dhaval Gada:** Thank you so much.

**Moderator:** Thank you. The next question is from Ashwin Balasubramnium from HSBC Asset Management. Please go ahead.

**Ashwin B:** I just wanted to know what will be the kind of installment to income ratio having both in the like housing loan segment especially like self employed and also in the LAP segment and when you are calculating this installment to income ratio, I am assuming you calculate based on an assessed sort of income. So if I were to sort you know look at it just reported income what kind of numbers would it thought look like. So if you can just give some clarity on that I will be helpful. That is my first question?

**R. Vardarajan:** IIR will depend on the monthly income that has arrived at for each borrower. It starts at 40%. Maximum it could go up to 50% okay and the income what we do is in the case of salary the income is very simple to arrive at, but in the case of self employed what we do is we do take a chartered accountant's profit and loss account, which is again cross verified by our branch manager by visiting the place of his business. So based on that income and the expenses he is likely to incur on these premises where he is doing the business and his family expenses, we arrive at a disposable income and based on that we arrive at the IIR.

- Ashwin B:** But I mean this income, which you take is that the reported income or you make your assessment in terms of both?
- R. Vardarajan:** We do both. We assess the income also.
- Ashwin B:** So the income assessment, which you make, will be like higher than what?
- R. Vardarajan:** You see in the case of small borrowers there may not be any reported income at all. They are not coming under the purview of the income tax below the taxable income. Therefore we have to only assess in those cases.
- Ashwin B:** So what will be the typical turnover of those kinds of borrowers I mean just trying to understand particularly in the LAP kind of segment?
- R. Vardarajan:** It varies, it could be anywhere between 3 and probably 1 lakh onwards the income and then it can go up to any amount as income depending on the business.
- Ashwin B:** Because given like even if you take ticket size of like say 20 lakh so then I mean revenues will also get reasonably substantial amount right I am just trying to understand it from that perspective?
- R. Vardarajan:** For 20 lakh is approximate 20000 will be EMI. This 50% even assuming IRRs of income may be around 40000 to 45000 naturally he can easily service that, but many times he may not come within the bracket of the income tax.
- Ashwin B:** Also with regard to the mean this quarterly results there has been an increase like normally from June to September your NPAs generally tends to decrease, but this quarter there has been an increase and like across the segment salary, self employed, and LAP so I mean any particularly reason for that?
- R. Vardarajan:** There is no specific reason for this increase. There has been some delay in the collection of the payment at the end of September that has resulted in this higher NPA levels. As was mentioned in the inaugural remarks we probably look at it as an aberration during the current year because so far during the last three years if you have seen we have been able to reduce the NPA. This is the first time it has gone up. So I think we will take all the measures necessary to correct this trend.
- Ashwin B:** That is it from me. Thank you.
- Moderator:** Thank you. The next question is from G. Vivek from GS Investments. Please go ahead.

**G. Vivek:** What about the concerns from the core business of lending in Chennai and the fact of that and other things, which had impacted us how will it recover soon and everybody is now concerned with demonitization on the concerns for the real estate and how impacted will we be and the last question is about the controversy, which we had with the CBI and other things. Thank you.

**R. Vardarajan:** I will cover all the three points raised by you. One is regarding the decision of the Honorable High Court of Madras regarding registration of the document. Recently, in public interest litigation, High Court of Madras has given a stay order of registering the document in respect of the residential plot, which does not have approval of the competent authority for residential layouts. So that ban has been made by the High Court, but actually the intention of the High Court is for illegal conversion of the water bodies, lakes, or government poramboke lands into residential plots without proper approval and also after conversion of agriculture land into residential land, but what happened is this has been wrongly (inaudible) 19.09 by some of registering authorities, so they were refusing to register even a normal residential properties, which were in existence even for 30, 40, and 50 years also, but the actual intention is the conversion now. Now a clarification has been issued by the Government of Tamil Nadu through a circular to all the subregistrars telling it is only for the first time registration. A property is in existence for a longer year and it has been for the use of the residential purpose that there should be no ban on such registration so we are only awaiting the implementation of that and that is the reason in respect of approximately around 200 Crore of loan sanction, which we have made we were yet to disburse actually. That is why if you see the loan growth in respect of the sanction and disbursement, disbursement growth is only 13%. Actually there are a lot of pending disbursements are there, which we believe during this quarter we will be able to clear that because this clarification has been issued government to the registering authorities and the second point, which you have raised about the demonitization as I have already explained in the short term there may be some pain, but in the long term we feel it is going to be gain for every housing finance company now because we believe this will ultimately result in eradication of this black money in the real estate transaction and all the money will be only through the accounting form, which is very good for banks and HFCs and it is going to be resulting in the gain only for us and we believe that there may some correction in the prices also so that the property will become affordable to the common man particularly the segment, which we are serving and they will be getting the benefit and we will be able to have a better demand or more demand in the future this is the second one. The third one with regard to the unpleasant with regard to the CBI, which has appeared in the media and which we have also clarified to the stock exchanges, it is only with regard to some private complaint made against the executives of the company because of some other action in the parent bank by some people to the CBI and CBI based on those complaints registering a case and it is only with regard to some waiver of some pre-closure charges in respect of that account, which is in line with the regulator that is NHBs direction, but since CBI has registered a case and they are going ahead with the investigation we believe they will go through the records and satisfy themselves and no violation of any of the norms has been done by the

company and the amount involved is also only 24 lakh of the waiver, which they are entitled to as per the NHB direction. Even otherwise when we have to charge these is all normal prudent business decision some times of offering the finer rate as interest or waiver of some charges. These are all normal business decisions, which we can explain, to the investigating agency and that things will get settled, but this investigation or their filing a case may not affect the finances of the company. It will have no impact on that.

**G. Vivek:** Sir coming to this major step taken by government the black money the price might correct for real estate by 20% to 30% that is a speculation and such a major price correction will it not impact us overall in our business and LAP and other segments also?

**R. Vardarajan:** It will not affect. As I told you this price correction are welcomed you know for us actually for the ultimate buyers as well as the housing finance companies, it is better for us because the registered value will be the market value both will be the same. Earlier there was some difference. See if might affect only in case of certain purchases, but in most of our cases, it is all self-constructed houses. 43% of my loan outstanding is for self-construction. So I do not think it should have serious impact on the business of the company.

**G. Vivek:** But what about the people who have taken the loan and the price have corrected and then will they be repaying it back it is actually LAP.

**R. Vardarajan:** Our LTV will take care of that because normally for purchases we do not go beyond 70% to 75%. I do not think the correction with respect to purchase is going to be more than 25% there.

**G. Vivek:** LAP you are going to up to what extent not 50%. It is likely more than 50% or quite high?

**R. Vardarajan:** Average LTV on the book is only 62% today.

**G. Vivek:** 52% for LAP.

**R. Vardarajan:** Considering the loan.

**G. Vivek:** No LAP you are talking about or overall?

**R. Vardarajan:** Overall. For the LAP you do not go beyond 60% at any cost. Normally we restrict it to about 50% to 55% and high-ticket LAP loans we do not go beyond 40 LTV.

**G. Vivek:** What about this LAP basically overall it is around 50% only or 60%?

- R. Vardarajan:** The LAP portion as well as LTV would be only around 50% to 52%.
- G. Vivek:** Okay that takes care of most of the concerns then.
- R. Vardarajan:** Yes you are right.
- R. Vardarajan:** Thank you.
- Moderator:** Thank you. The next question is from Roshan Hegde from ICICI Pru Assessment Management. Please go ahead.
- Roshan Hegde:** Just following up on the new regulation that had been on it with the High Court. If I understand you rightly only for the fresh disbursement, the registration has to be done, and it is elongating the process. Is that right.
- R. Vardarajan:** Earlier the interpretation by the registering authority was unless you produce, suppose your house may 30 years old. Your plot would have been bought 30 years old and it would have crossed three hands, but still they insists you show the original approved plan of the residential layout. That layout approval by the competent authority. For example in Tamil Nadu it is the Directorate of Town Planning. Only in smaller towns it is panchayat, which may not be available with them right now, but now what they have clarified, it is for the first time registration. Earlier it was agriculture land. They are putting a layout of say about 30 or 35 residential plots. They are going for registration then it is required. That is the clarification they have issued. It is only for the fresh conversion of land, water bodies, government porambores, and all then only such things will come. The residential layouts, which were in existence earlier they are exempted from such a stay that is a clarification issued by the Government of Tamil Nadu now. We have to wait and see you know how it works out.
- Roshan Hegde:** On the LAP LTV you are saying it is about you will not go anything more than 60% is it.
- R. Vardarajan:** We will not go beyond 60%.
- Roshan Hegde:** What is the 75% I heard you say?
- R. Vardarajan:** That is for housing loan.
- Roshan Hegde:** Housing loan. So overall how is it 62% then?
- R. Vardarajan:** See if you take the overall book of average on how we earn on LAP put together say about 8468 for outstanding loan amount.

- Roshan Hegde:** Right the average should be closer to 75% right. If your LTVs on house loan is 75%?
- R. Vardarajan:** 80% is housing loan. Of that 20% is the LAP loan. So the LAP average loan does not go beyond 50% to 52%, housing loan average is around let us say about 70% though we go up to 75%, so the average on the books works out totally about 62% that is what we said.
- Roshan Hegde:** Sir therefore asset quality problem even if there is a prize correction you would not expect an asset quality problem?
- R. Vardarajan:** Yes we do not expect.
- Roshan Hegde:** Have you started doing any auctioning any particular auctioning how is the process in the new auctions in the market?
- R. Vardarajan:** Auctions are there. We have already started doing these auctions. That is periodical. That whatever is there we are going ahead with the auction.
- Roshan Hegde:** Have we faced roadblocks can we because if the lowest strata of the society. Typically is it possible for us you know repossess or do the auctions smoothly?
- R. Vardarajan:** Repossessing the assets it is under the SARFAESI, we can go ahead. Once the possession order is given by the competent authority with the commissioner we will go and take possession and we go by the auction by prescribed route that is permissible and we are going ahead with that.
- Roshan Hegde:** Thank you so much.
- Moderator:** Thank you. The next question is from Archana Makhija from Morgan Stanley. Please go ahead.
- Archana Makhija:** Sir I have two questions. One is on asset quality. You said that particularly the LAP levels have gone up versus what we have seen in previous years and you mentioned that this because of delay in collections. I just wanted to know why there was a delay in collection. Do you particularly see any customers who defaulted I mean from any particular segment in terms of income bracket or the segment in which they are working in. I just want to understand what is the real reason for the NPA levels increasing in quarter two and I have one more question. This is on the demonetization bit you know because in the longer run you will see more money being banked, which is good in the longer run, but you also see since more money becomes banked even though the low income customer has become formal, do you see HFCs like Repco losing a competitive edge to banks because now it has become very easy for a bank to assess the customers income and give a housing loan to the customer.

- R. Vardarajan:** As far as asset quality was concerned and as for the delay is concerned there were a few large LAP accounts where the borrowers could not meet the commitment on time where I have said earlier we are being able to recover a part of the money subsequently. That was the reason. We have a few large accounts that are why you know we are taking corrective measures.
- Archana Makhija:** If you exclude the LAP piece even on the housing portfolio there is an increase in NPA. I mean can you help me with the reason for that?
- R. Vardarajan:** At least in the NPA level and the housing loan that is I think we considered is sort of very not rough alarming because considering our exposure we have about 60% sales flow segment. See it has happened in the past also. We have seen increase in the GNPA levels, which has been corrected subsequently before the end of the year. We believe that we should be in a position to achieve that type of a performance during the current year also.
- T. Karunakaran:** With regard to the demonetization what we were mentioning the crux of losing customers to the formal banking channel, I do not think it will happen. See this is not going to result in all those borrowers put their money through the bank. It is not so. These borrowers will continue to do only the cash transactions. What I meant is these are all small cash transactions, which is not going to be affected. What government is aiming is that the big shot where there is big money is there in the black market. These types of small traders in the village or small carpenters, I do not think they will go to the plastic money right now. No they will continue to have this type of cash transactions. They will continue to repay. Since demonetization today the Rs.500 may not have any value today, but it is only short-term phenomenon as I have told you. Before the end of the month, things will settle and therefore they will continue to have the business, continue to have the cash transaction of small value and continue to repay to institutions like Repco. That is not going to be affected and that is not the intention of the government at all. Government intention is you know to attack the bigger black money holders not the small borrowers not at all.
- Archana Makhija:** Thank you.
- Moderator:** Thank you. The next question is from Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** Thank you very much. Sir you mentioned that 43% of your home loans would be for self-construction. So how much could be under builder construction.
- R. Vardarajan:** It is not an exposure to the builders at all. We do not lend to the builders for any project because individual construction.

- Adesh Mehta:** No, I am not talking about builder loans. I am talking about say a homebuyer who has purchased a property, which is under construction by a builder. How much of these loans would be?
- R. Vardarajan:** Most of these guys they have their own land on which they do the construction okay. They do not engage a big builder for the construction especially in tier two and tier three areas, this amounts to about 26% average.
- Adesh Mehta:** Okay it could be around 26% and the rest would be resale properties?
- R. Vardarajan:** No, see construction 43%, we have land plots and subsequent construction around 5% and requires the renovation 1% and Repco rural customers 6% and the other type of classes so that is how it is distinguished, but in the case of purchase when we say 26%, it might be an outright purchase or a ready build house or the purchase through the promoter what you said some people may purchase through the promoter as well as in construction in the project. So I can roughly say around out of 26% some 15% may be through the builders you know property developers. The remaining 11% may be the outright purchase of the ready build house.
- Adesh Mehta:** Sir now that we will see a decline in real estate prices. What is your outlook on growth?
- R. Vardarajan:** Growth.
- Adesh Mehta:** Yes.
- R. Vardarajan:** Growth I think we believe in the short-term we should continue to have the same growth. Probably in the long-term it may increase. I have to wait and see, but short term we do not increase the growth rate, so we believe we should be able to have the same around 25%.
- Adesh Mehta:** Thank Sir. Thank you very much.
- Moderator:** Thank you. The next question is from Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** My question is on the LAP portfolio, so when we do a valuation of the LAP, so when we say that LTVs are 60% how do we value the property like how many of it would market value. How many of it would be Tahsildar value or distress value. What kind of evaluation metrics does we?
- R. Vardarajan :** The evaluation what we do is through the approved panel valuer. This panel valuer or registered valuer they are also registered with the income tax authorities and all and we engage them and they go there and they give their independent evaluation subject to confirmation by our own officials because that valuation we do not take straight away. We reverify by our own people, but earlier we will give two

type of value. One is the market value and the second value is the forced sale value, so in case of our sale under a distressed condition because whenever you auction it you may get the market value. There may be some slight discounts on the market value. So we always take the forced material value as the value. On that we calculate our LTV that is the methodology we follow here.

**Digant Haria:** So we do not use the market value. So we use a more conservative value, which is the forced sale value?

**R. Vardarajan :** Yes and particularly in case of the accounts, which is more than 1 Crore we take two valuations by two independent valuer again for comparison.

**Digant Haria:** Okay, and any thoughts on the general LAP market in South India because we had a couple of LAP players like Bajaj Finance and Chola Finance who said that LAP markets are overheated and especially in North India, the NPA have gone as high as 5% to 6%. So you know any thoughts on slowing down this LAP portfolio or you know going a little slow.

**R. Vardarajan :** I may not be able to hint about others. I can tell about other experience. What we find based on the second quarter results we find sudden slippages in the case of high ticket LAP loan therefore we have internally taken a decision that since it is overheated let us not focus on those areas. Let us concentrate on the loans before Rs.50 lakh.

**Digant Haria:** Okay, we think that you know by March 2017 that is the end of this year our NPA should more or less be around the trend line that we have and now the current levels that are there?

**R. Varadharajan:** We are working in that direction.

**Digant Haria:** Thank you very much.

**Moderator:** Thank you. The next question is from Parag Jariwala from Religare Capital. Please go ahead.

**Parag Jariwala:** Good afternoon Sir. Basically you said that in near term or probably in the median term you expect the prices to come off a bit because now that the cash component will go out, but do you think as a price and the volumes are so very heavily correlated in the sense that anywhere if you expect you know prices to let us say in the next month or a month and a half or two months expect around 10% correction in the price will the volume go up by 10%. Is not volume is more correlated with what do you expect about the market situation going forward, so you know at initial correction in the prize, volume may not pick up to that extent and probably you know when we see 20% to 30% price correction you will see slow up move in the volumes. So what I am trying to ask you is that basically

it may happen that in the first correction in the prices you may not see any bump up in the volume and it may impact your growth not only you, I mean probably your segment is slightly resilient?

**R. Vardarajan:** I agree with you. Your perception is right. In the sense immediately we may not be able to have flux in the demand. I only said in the long term. That is why when somebody asked you know what your perception on the growth rate is, I said the same growth rate only we expect. We do not expect any immediate increase in the growth rate, but in the long run yes not only for us and the overall economy it is going to be good for us and there will be more demand for the housing in the long run.

**Parag Jariwala:** Right, but I think in short to median term do not you think that growth can come off.

**R. Vardarajan:** I do not think. The growth should come off. Why it should come off. I think that since there is a lot of pent up demand already there, I think the existing demand probably will continue. I do not think people are going to postpone those decisions to buy a house thinking that over a period of another one year the prices are going to drop by another 20% or so. I do not think people will wait that much long and I think as told earlier, about 43% is going to a self-construction for me. This ratio has been maintained over the last couple of years we have been doing that business. I do not think they are going to delay the decisions for constructing the household. Cost of construction is a different way.

**Parag Jariwala:** I agree for your segment, but generally you have this 43% which is unique and which is very, very good, high margin, but generally if you look at the other competition, or other players like couple of large players, I was just trying to have a sense on somebody let us say another 50% piece which buys from builder or for everybody else if they may try to postpone their decision a bit.

**R. Vardarajan:** Even otherwise, this guy we also know with all these demonitization and all those things, the cash component is going to go down. So it is probably going to help them in buying the house. It is only the cash component probably will get affected. I do not think the basic price of a house probably will remain stable and it may see a correction may be in another three to four months that probably are the period. I do not think we have to wait for a period of 12 months or 24 months to take a decision.

**Parag Jariwala:** One more question on loan against properties. Do we buy out loans from other financiers or do we sell them and if we do then how that market is looking like compared to what was there a year before?

**R. Vardarajan:** We do not buy out loans.

**T. Karunakaran:** You mean takeover, you mean balance transfer or takeover?

- Parag Jariwala:** Yes balance transfer or takeovers?
- T. Karunakaran:** Actually that is around 3% of our loans. Normally takeover and top up that is the product we have so in that our total sanctions constitutes 3%.
- Parag Jariwala:** Thank you Sir. That is really helpful.
- Moderator:** Thank you. The next question is from Sarvesh Gupta from Trivantage Capital. Please go ahead.
- Sarvesh Gupta:** Sir, would you like to give any NPA guidance at the end of the year?
- R. Vardarajan:** We cannot give any guidance. As I told already last year it was around 1.3%. Our entire efforts and endeavor is either to reach the target below that.
- Sarvesh Gupta:** Secondly on the growth for this quarter it has come off a bit, last quarter, 25% to 26% has come down to 23%-odd?
- R. Vardarajan:** We can answer that.
- Sarvesh Gupta:** I was saying that the growth for this quarter has come off a bit. It was around 23% odd compared to 27% to 28% in the last quarter. So what is the growth guidance for the entire year and do you see some catch happening in this quarter?
- R. Vardarajan:** I think overall for the current financial year we are still looking just around 25% growth. So in between there could be a couple of percentage here and there, I do not think that should impact the business in any significant way.
- Sarvesh Gupta:** Thank you Sir.
- Moderator:** Thank you. The next question is from Ankit Babel from Subhkam Ventures. Please go ahead.
- Ankit Babel:** Good afternoon Sir. The first question is now we have been tracking the company since the listing and the process. What we have witnessed is that in spite of the fact that you have a very high share of non-salaried people in your loan book, but it is not helping the company in terms of any higher growth or higher ROAs or higher margins and at the same time, the asset quality is the worst in terms of other peers. Even CanFin is growing at 30% to 35% with no asset quality issues. PNB having a 40% developer loan having no asset quality issues, so all other housing finance companies even IndiaBulls has a very share of developer loans and LAP portfolio and everything, still they do not have any asset quality issue so why only Repco is facing asset quality issue?

- R. Vardarajan:** I do not think I will be in a position to comment on the other company's thing. As far as Repco is concerned, this we have seen over the last I think for a period of about 40 months now, this higher level of GNPA's and we believe that it is basically due to the 16% exposure we have from the self-employed segment where the cash flows are not uniform.
- Ankit Babel:** I agree. So in percentage terms it should be same.
- R. Vardarajan:** Most other companies they have a large exposure probably to the salaried segment.
- Ankit Babel:** So why we are focusing more on self-employed and not focusing on salaried?
- R. Vardarajan:** Salaried over crowded. You are aware. It is about as per the recent statistics that has been published the salaried segment accounts are only about 17% of our working force. It is already overcrowded there is a market. Today everybody is trying to come into the self-employment roof.
- Ankit Babel:** But again I mean at the same time, if it is overcrowded but still...?
- R. Vardarajan:** If we have to do more salaried segment probably then I have to do a spade of 19 return ratios. That is the main reason. If I have to maintain a spread of around 3% I think this is what is going to be the business mix. Say State Bank of India is going to lend at 9.1% or 9.15% to the salaried segment, where I am going to compete with him at my cost of funds.
- Ankit Babel:** So any reason why we are not able to get that kind of cost just because of our rating or there is something else also?
- R. Vardarajan:** Most of the banks they have the CASA accounts.
- Ankit Babel:** No I am not talking. I am not comparing you with the bank.
- R. Vardarajan:** These are the cost of funding. Today what will be the average cost of funding for State Bank of India?
- Ankit Babel:** I agree, I am not comparing your cost of funds with the bank's cost of fund, but even CanFin has raised some money at around 6% to 7%.
- R. Vardarajan:** They are higher rated than us.
- Ankit Babel:** It is only about rating?
- R. Vardarajan:** It is rating. It is also one of the factor is rating.

- Ankit Babel:** So many quarters we have been contemplating that you are in talks with your rating agencies to upgrade yourself and you were always that they would upgrade you?
- R. Vardarajan:** We are still hopeful, but unfortunately, you know the rating agencies, I think, the rating agencies it is because of the promoter issue. In case of CanFin, promoter is the Canara Bank, which is a public sector bank. In the case of PNB Housing Finance, it is Punjab National Bank, so till they came out of the IPO.
- Ankit Babel:** Sir in that scenario will we continue to keep this mix of 60% non-salaried and 40% salaried?
- R. Vardarajan:** For the current financial year may be in the couple of years the current mix will be like this only.
- Ankit Babel:** Your LAP also you always said that we will limit it up to 20%, so this is just a quarterly phenomenon where it is likely higher or has there been change in your policy?
- R. Vardarajan:** This actually if you see the LAP portion it is only 19% the remaining is we have classified under the CRE, Commercial Real Estate so when we grant a housing loan for this third house, when we grant a housing loan to a customer for the third house, NHB advises us you reclassify as a commercial real estate and classify it on the LAP portion. That is what we have classified. Only for the purpose of your capital adequacy nothing else, but otherwise, we have not gone beyond 20% as far as LAP is concerned.
- Ankit Babel:** By nature that is also a housing loan only?
- R. Vardarajan:** Actually it is housing loan, but we are not permitted to classify it as a housing loan by the NHB that is what we have reclassified under the LAP. LAP consists of the real mortgage of the LAP loan, as well as the CRE frankly above 1%.
- Ankit Babel:** Sir my last question is your borrowing mix banks are still at around 62%, so any thought here that will it remain at 60% plus or will you reduce it to 40% to 50%?
- R. Vardarajan:** Market borrowing we are contemplating to increase every month.
- Ankit Babel:** Borrowing mix, I mean, the banks have the larger share around 62%?
- R. Vardarajan:** It is coming down.
- Ankit Babel:** I know it is coming down. It has come down from 68% to 62% so any guidance that where you want to take it to, like 50%, 40%?

- R. Vardarajan:** It all depends on the market rate. That is all I want to say. We will be very happy to bring it down to 50%. That is true, but it depends on the rate.
- Ankit Babel:** Thank you Sir.
- Moderator:** Thank you. The next question is from Laxmi Narayanan from Catamaran. Please go ahead.
- Laxmi Narayanan:** Thanks for taking my question. A couple of things, what has been our incremental borrowing rate for this first half whatever we have borrowed, what has been our average borrowing rate and second what has been the mix of borrowing? Is it more of a three-year or a one-year kind of instruments? That is on the borrowing side. Second how many of our repayments actually as a stock happens within a single day of delay. I am not talking about the NPA and GNPA which you have disclosed, but people who pay on time, normally what is that particular proportion as either a percentage of portfolio or percentage of your amount and the third is regarding the Chennai, what kind of exposure you have in Chennai and how do you think you mentioned that 200 Crores is waiting to be disbursed. Is it all in Chennai?
- R. Vardarajan:** See the first question as far as the borrowings are concerned, the incremental borrowings during the current quarter we raised NPVs at 8.5%, the commercial paper at 6.9%, the bank's borrowings have been at 9.3%. This is the incremental rates at which we borrow during the current quarter. In terms of the weighted average cost of this incremental borrowing was around 8.5% for the current quarter.
- Laxmi Narayanan:** For the half-year how much Sir?
- R. Vardarajan:** Half-year the average cost of funding has remained at 9.2%.
- Laxmi Narayanan:** The weighted average has been 9.2%.
- R. Vardarajan:** Yes, weighted average from all the sources put together is 9.2%. As of the repayments are concerned, your question is that how many of them pay on a regular basis is it like that?
- Laxmi Narayanan:** That is right because there is you mentioned there is 20% would actually end up paying later, you have to do cash etc., but in broadly do you see that I just want to know how much of them pay on time and then how this has actually been trading in the last three to four quarters?
- R. Vardarajan:** What happens is that we do conduct either the PDC or for directly deputing their account through the NECS platform now. From all the borrowers, from all the 100% borrowers we get this commitment from them and in terms of the PDC, the postdated cheques, some of the borrowers do come at a time of when you are going to deposit a cheque, they will say the request, please do not deposit it today, I

do not have the money, then we will come and say, I will come and pay the money in cash by the end of the month. That is somewhere around 15% to 20% was this type of a cash payment we used to collect every month. Otherwise we do take CCDs and instructions to debit their account from the borrowers.

**Laxmi Narayanan:** Which means at around 15% to 20% of the borrowers will have at least one day or two-day lag after the due date?

**R. Vardarajan:** Before the due date we collect, at the end of the month. Cash collection in the sense it is not after the due date.

**Laxmi Narayanan:** I get it but in general the practice of because you mentioned there has been a trend of GNPA increasing. My question is in general, how many people pay on time and how is that. When I say pay on time not a single day of delay. If the due date is 5th of a month they pay on 4<sup>th</sup> or 5<sup>th</sup> of the month and not a single day delay and how is, I mean what is the general trend and how there has been trending over the last two or three quarters for any directional number would be helpful.

**R. Vardarajan:** We will tell. I can roughly tell you more than 90% of the borrowers will pay on the due date itself, and you know about approximately around 2% of the NPA borrowers they have delayed more than 90 days. The remaining 8% will be this portion.

**Laxmi Narayanan:** Sir on the Chennai thing, can you just let me know if things have turned okay in Chennai or has it been because I hear some kind of administration slowness in Chennai given there is a political lethargy also out there now. What is your view and what is your exposure there?

**R. Vardarajan:** It is not Chennai. It is Tamil Nadu. It is for the entire Tamil Nadu, and already instructions are gone from the Government of Tamil Nadu to all therefore we do believe it is not only Repco Home Finance it is all companies, all banks. It is not for one company alone. It is given by the High Court of Madras for the state as a whole and the Government of Tamil Nadu has now come out with a clarification, it is now only for the new layouts, not the old layouts, it is for the new layouts. Therefore we believe it should improve. The interim stay order given by the Madras High Court is applicable to entire Tamil Nadu and it is applicable to all the institutions. Actually it is not for the institutions, so all the registrations in the Sabri East. Therefore the registration came to a standstill in all the registration officers throughout Tamil Nadu and all the institutions, all the banks got affected because of that. Now that a clarification has been issued by the Government of Tamil Nadu and Sabri East has started releasing the documents, we believe that things should improve and that 200 Crores which we have sanctioned yet to disburse, the disbursement may take us during the current year, it is expected.

- Laxmi Narayanan:** Got it. Thank you so much Sir.
- Moderator:** Thank you. We will take the last question from the line of Harshit Toshniwal from ICICI Securities. Please go ahead.
- Harshit Toshniwal:** Good afternoon Sir. Just wanted your outlook on the yields maintained, Sir it is around 12.2% currently and with the demonitization a part of your target customers also being accessible to banks, so what do you think over a medium period that there must be some pressure on the yield side, so what is our outlook and are we ready to compromise for maintaining this growth around 20% to 25% growth?
- R. Vardarajan:** Earlier, I have clarified the type of customers in tier II and tier III cities particular the self employed segment of the load ticket size because of the demonitization they are not going to go to the banking system immediately. It is not going to happen. They are all small borrowers as I told you earning around less than 20000 to 25000 per month, a small teashop owner and all they will continue to have their transaction and there may not be any pressure because of the banks taking over those accounts. That is not a problem.
- Harshit Toshniwal:** On the yields, so are we headed to even compromise a bit on margins for maintaining this growth rate of around 25% or what is going to be our parity?
- R. Vardarajan:** Our idea is in the short-term we would like to maintain the same spread of 3% and NIM of 4% we maintain in the past for the last three or four years if we are maintaining. We believe in the short-term we should be able to do, but in the long-term when your book size grows beyond certain limits and naturally for the volumes we may have to take a call at that time not today/
- Harshit Toshniwal:** Thanks a lot Sir.
- Moderator:** Thank you very much. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Rakesh Shinde for closing comments.
- Rakesh Shinde:** On behalf of Asian Market Securities, I thank everyone for joining this call and special thanks to the management for providing us the insight about the company performance and the industry and the future outlook. Sir, would you like to add any closing comments!
- R. Vardarajan:** We can close. Thank you. We thank all the participants for their active participation.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Asian Markets Securities that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.