# Transcript

## Conference Call of Repco Home Finance Limited

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*Presentation Session*

***Moderator:*** Ladies and gentlemen good evening and welcome to the 1QFY17 Earnings Conference call of Repco Home Finance hosted by HDFC Securities Limited. As a reminder all participants' lines will be in a 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 telephones. Please note this conference is being recorded. I would now like to hand over the floor to Mr. Dipen Sheth from HDFC Securities. Thank you and over to you Mr. Sheth.

***Dipen Sheth:*** Thank you and a good afternoon to everyone. On behalf of HDFC Securities I'd like to welcome you all for the first quarter FY17 earnings conference call of Repco Home Finance. We have with us Mr. R. Varadarajan, Managing Director of Repco and Mr. V. Raghu, ED, Mr. K Ashok CGM Credit and Mr. Karunakaran CFO. I'd like to hand over the conference to Mr. Varadarajan first of all to take us through the highlights thank you and over to you sir.

***R. Varadarajan:*** Thank you, good afternoon everyone and a very warm welcome to Repco Home Finance Earnings Conference call for the quarter ended June 30th 2016. Our performance in the reporting period was satisfactory. The loan book grew at a very healthy rate. Spreads and margins remained stable even as the asset quality was in line with the seasonal trends. You are aware that two thirds of my business is in Tamil Nadu. Sanctions and disbursements of the loans gets impacted during the first two months of Q1 due to elections here and more than 50% of the sanctions and disbursements for the entire reporting period happened in the month of June; still it is satisfying that the company could post sanctions and disbursements in Q1 above the Q1 level of last year. The balance between our exposure between the self-employed segment and the salaried segment stood at about 59% and 41% respectively. Similarly the share of housing loans in the loan book was maintained at about 80%. Net profit was up by 31% during the quarter driven by net income interest growth of 27% and tighter control on operating cost as cost to income stood at 16.2% down from the previous year. GNPA stood at 2.2% NNPA at 1.2% resulting in a provision coverage ratio of 45.8%.

During the quarter we earned a spread of 2.9% and a NIM of 4.3%. ROA and ROE for the same period were 2.3% and 18.1% respectively. Capital adequacy ratio stood provisionally at 20.05, sufficient to fuel company's growth plans for the foreseeable future. Our retail net worth as on June 30th 2016 comprised of about 130 branches and 31 satellite centers spread across 11 states and the Union Territory of Puducherry.

The financial highlights for the entire year, Q1FY17 is as follows: income from operations during the year stood at 246.8 crores, up 23% from last year's Q1. Net interest income was Rs.84 crores, up 27%. PAT was Rs.39.5 crores, up by 31% compared to the previous year. Cost to income ratio brought down to 16.2%. Loan book increased to Rs.7,959.3 crores registering a growth of 25% over the previous year. GNPA stood at 2.2 and NNPA 1.2 resulting in a CCR of 45.8%. At this point I would like to thank all of you for joining the call. We will now take your questions.

***Question and Answer Session***

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

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

***Kunal Shah:*** (Inaudible) backlog and it should get normalized as we move into Q2, so maybe April and May would have been slow; has it picked up in June and maybe for the second quarter we will see a much higher growth which any which way for the full year should not impact the overall disbursement growth. How should it be looked upon?

***V. Raghu:*** Yes I think like in the previous years the Q1 figures and then for the reasons stated by the MD during the inaugural speech there I think that should compensated in the coming three quarters and we should be in a position to see some growth in the coming months.

***Kunal Shah:*** Okay, apart from these elections are we seeing maybe in terms of competition or say in terms of yields being higher and that could be the reason for the disbursement or this is purely on account of the elections wherein we have seen relatively low disbursement growth?

***V. Raghu:*** The major reasons for the slow growth during the first quarter, has been the election the main reason. Yes, I think we also realize the fact that there is competition coming in, but effect of that is not very much.

***Kunal Shah:*** Okay. Sir in terms of lending rates, how much we would have reduced?

***V. Raghu:*** If you see the average yield on the book which was 12.70 as of June 15th, that's come down to 12.40 during the current first quarter; that's about 30 basis points.

***Kunal Shah:*** Yeah, but that should also broadly include in terms of the proportion the way we have seen it shifting from salaried to self-employed and even say LAP also moving up. So I think yields would have that factor but when you look at it in terms of the card rate….how are we looking at it in terms of the card rate?

***V. Raghu:*** I didn't get your question.

***Kunal Shah:*** Sir in terms of the card rate the reduction would have been higher. Maybe what would have helped in yields also the self-employed segment has moved up from 55% towards the 60% which carries any which ways a relatively higher yield as compared to that of salaried. So is the reduction in the card rate higher so that maybe on an average when we look at it for the salaried class, what is the lending rate today?

***V. Raghu:*** The lending rate varies from 9.6% for the salaried person and depending on his risk factor and all those things the interest rate varies. So base rate we can't alter. Lowest rate we start at 9.6%now for the salaried.

***Kunal Shah:*** Okay and for self-employed?

***V. Raghu:*** For the self-employed, it starts around 10, 10.5. It is almost about 1% more than the salaried class.

***Kunal Shah:*** Okay. And sir looking at the proportion wherein it is going today at 60%, now going forward, largely if we want to maintain the proportion of the self-employed and salaried over here, will we be sacrificing any growth on the self-employed side maybe till the time we see a similar kind of growth in the salaried because till now we clearly see that there is an inch up in the proportion of the self-employed. That would have driven the larger part of the growth but suppose if we don't want to scale up this proportion further, then should we see the overall growth itself moderating from the current level?

***R. Varadarajan:*** No, not like that. That is the reason we have brought down the interest rate for salaried section to 9.6%. Once upon a time we were charging 10.85% for the salaried. From there we have brought it down to 9.6 with the sole intention we will not sacrifice the growth also and at the same time we should be competitive in the market without sacrificing the spread because the policy decision of the company is to maintain the spread of around 3% and this we continue to maintain. At the same time, see that the growth rate is also around 25% and not increasing the non-salaried proportion beyond 60% that is our policy. We may not increase beyond 60%.

***Kunal Shah:*** Yeah so we are almost there now. So now incrementally whatever disbursements happen that would happen in the ratio of 60:40?

***R. Varadarajan:*** Yes.

***Kunal Shah:*** Okay and it should have been slightly on the higher side in the last three, four quarters since we have seen that consistently self-employed is inching up?

***V. Raghu:*** Yes. The reason was because of the interest rate what we offer to the salaried class…now it is very attractive. It is very, very competitive and almost equivalent to other HFC today.

***Kunal Shah:*** Okay. So in terms of our growth, we are pretty confident of actually sustaining 25%?

***V. Raghu:*** Yes.

***Kunal Shah:*** So that pretty much continues?

***V. Raghu:*** Yes.

***Kunal Shah:*** Okay thanks a lot sir.

***V. Raghu:*** Thank you.

***Moderator:*** Thanks a lot sir. The next question comes from Mr. Amit Ganatra from Invesco Investment. Please go ahead.

***Amit Ganatra:*** So I have got two questions. One was, on the website there is an ad about some subsidy of 2.2 lakhs for elevated cases under Pradhan Mantri Awas Yojana. Can you please elaborate in terms of what that scheme is all about and what are the ticket sizes and what are the yields and how does this facility work?

***V. Raghu:*** Basically this scheme is promoted by the Government of India; it is regarding the scheme of Pradhan Mantri Awas Yojana for providing housing for all by 2022. What they are saying is that any borrower where the size of the house is 30 square meters in an urban area or 60 square meters in the other than urban areas and where the loan amount is around…..loan amount can be anything but they provide subsidy for the first six slabs of loan at 6-1/2%. This 6-1/2% what they do is, they calculate it for a period of about 15 years and that through discounting method they find out the present value of that amount which was maximum of 2,20,000 and that is given as an upfront subsidy to the borrower and this upfront subsidy is credited into the account of the borrower so that the principal amount gets reduced and then we continue to charge the same interest rate what we would have otherwise charged them. So this is how the scheme works.

***Amit Ganatra:*** So here basically it is immaterial whether he is salaried, self-employed or anything?

***V. Raghu:*** Yes, it can be both either salaried or self-employed. Just the size of the house should not exceed 30 square meters and the subsidy is given only for the first six lakhs.

***Amit Ganatra:*** So size is a limiting factor and the income of the borrower should be another limiting factor?

***V. Raghu:*** If it is EWS it is three lakhs if it is LIG it is six lakhs is the income.

***Amit Ganatra:*** Sorry….three lakhs is what?

***V. Raghu:*** EWS – economically weaker section and beyond three lakhs and upto six lakhs it is classified as low income group; so it is applicable only for these two categories. It is applicable for the first house of the borrower. One house only.

***Amit Ganatra:*** But for both these categories similar subsidy is available?

***V. Raghu:*** Yes. Subsidy is the same.

***Amit Ganatra:*** Right now out of the total disbursements you would have done how much of it is contributed by this scheme?

***R. Varadarajan:*** We have done almost 300 cases under this.

***Amit Ganatra:*** What are your ticket sizes for you in this?

***R. Varadarajan:*** On an average it is 10 lakhs.

***Amit Ganatra:*** How long back have you started doing this?

***V. Raghu:*** This scheme is only about three months old….this is the first quarter.

***Amit Ganatra:*** So from your perspective visibly what happens is the amount directly gets credited to the borrower and then you basically charge interest only on the rest of the amount?

***V. Raghu:*** Yes rest of the amount.

***Amit Ganatra:*** But initially you fund in fully?

***V. Raghu:*** Naturally. We fund in fully initially including that subsidy amount.…

***Amit Ganatra:*** Okay and then that subsidy comes back to you?

***V. Raghu:*** Yes.

***Amit Ganatra:*** Okay sir. That was one question; the second question is that you mentioned that in response to the previous question that you have reduced rates. But you were saying 10.85 you were charging, now basically charging 9.6. Your cost of funds have not come down so dramatically so doesn't that put any sort of pressure in terms of yields in future because the mix is also now optimum.

***V. Raghu:*** No, what I mentioned 10.85 is, it is not last quarter it was 10.85 now it is 9.6; not like that. In fact last quarter it was 9.9%; so 30 basis points only we have reduced because our cost of funds have also come down by 30 basis points. So the policy of the committee is….our ALM committee constantly looks at the cost of funds and the yield on it and we would always like to maintain around 3% spread that we are improving. That's why our profit margin level comes down, but whenever there is reduction in the interest rate in the market, we would like to pass it on to the salaried class so that we maintain the percentage of salaried customers also because if you are not passing on to the customers; they will go to other companies. We have to sustain in the market and that is the reason we have brought it down to 9.6% in tune with the interest rates of other HFCs.

***Amit Ganatra:*** Correct but you also mentioned that the yields that you have currently on advances is around 12.4% right, that's what you mentioned?

***V. Raghu:*** That is the average.

***Amit Ganatra:*** Yes correct. How does one arrive at this 12.4 considering your current mix? What would your yield be on individual….?

***V. Raghu:*** My home yields, average yield on the home loan is around 11.7 and on home equity it is 15.2, so the average yield is around 12.4.

***Amit Ganatra:*** But considering your incremental yield both for self-employed and salaried, are around 9.6 and 10.6, wouldn't this…..?

***V. Raghu:*** No, 9.6% is only for salaried not for self-employed.

***Amit Ganatra:*** Correct, for self-employed it is 10.5% or something, that's the rate that you just mentioned in response to the previous question….Hello?

***V. Raghu:*** We are here.

***Amit Ganatra:*** So salaried you mentioned 9.6% and self-employed you mentioned 10.85% or something?

***V. Raghu:*** I will explain to you. What we told as 9.6% is the starting rate. It is not the rate for all the salaried class at all. It is for salaried class up to 30 lakhs of loan it is 9.6%, it is the starting basic rate. And thereafter we told we will add the premium depending on the quantum of the loan as well as the other factors involved, depending on the risk factors. Therefore it is not all salary loans are 9.6%, no we did not say that. It is the starting rate. Similarly we told 10.85% or 11% for the non-salaried, it is the starting rate for about 10 lakh loan. Again we add the risk factors there and it goes even up to 12.85%, 12.88%. Therefore what we have to look at for the yield and the cost is the blended average of all. That's what we are interested. So the blended average we maintain in such a way we are able to have the spread of 3% that is how we work out.

***Amit Ganatra:*** Lastly, I was observing your addition to Branch network has come down…..it has slowed down as compared to previous year. Is this a deliberate strategy or what is the thought process in terms of this branch addition as well as the overall OPEX growth?

***V. Raghu:*** Deliberately only we have slowed down the branch expansion because we are able to achieve the growth with the existing branches. But we like to consolidate our position in the state where we are operating right now, that is the current strategy before we look into newer geographies.

***Amit Ganatra:*** So in that sense the OPEX growth which was running at almost…..last year first quarter OPEX had grown at around 37%; this year it is around minus 4%....so is this the kind of sustainable outlook for this full year now because you are not growing, your expansion has basically slowed down?

***V. Raghu:*** I don't think my OPEX has got anything to do with my branch expansion or something like that. My branch costs are not very high also. I don't think we will be slowing down, instead of 15 maybe we will be opening about 10 branches in a year during the current year. The policy of the Company is to open a satellite center first and then convert that into a branch. We will continue with that strategy and then we will start identifying new centers for our satellite centers.

***Amit Ganatra:*** But only continually last year if I see, year on year your establishment expenses were growing at 19%. This year it is minus 4%. What is the right number to look at in terms of sustainable numbers for your OPEX growth?

***V. Raghu:*** I will get back to you. Right now I don't have details of this; I will come back to you.

***Amit Ganatra:*** Okay thanks I am done, thanks.

***Moderator:*** Thank you sir. The next question comes from Mr. Ashwin Blasubramanian from HSBC Asset. Please go ahead.

***Ashwin:*** I have a couple of questions related to the slide where you have given the breakup of gross NPAs by product. While I understand the self-employed and the LAP segment being the seasonality, I am not able to get why there will be a seasonality in terms of the salaried segment as well because I think there also your gross NPA has gone up from 0.7% to 1.2%. So just wanted to understand what type of customers will be there in the salaried segment which is kind of contributing to the seasonality because generally their cash flows will be more sort of stable. And also the home equity side, while obviously a part of the increase due to seasonality even on a year on year basis, I think there has been a fair bit of increase on the gross NPAs so wanted to understand why that would have come about. Are you seeing any stress in that segment basically?

***V. Raghu:*** In the case of salaried NPA, in the home loan segment, it is right now at 1.15% which was about 1.31% during the corresponding rate of the previous year. You have to understand here, our salaried segment they are not typical government salaried people. They are the private sector salaried people. So people whenever there is a change in the job from one to the other there could be some shortfalls in the repayment and that is the reason we see the seasonality in the salaried level. When compared to the non-salaried segment in the housing loan, my GNPA from 2.59% it has come down to 2.49% on the housing loan segment but in the LAP segment yes it has gone from 3.58% to 4.05% in the non-salaried segment. This is basically something to do with seasonality as you mentioned. At the end of the year we are confident that we should be in a position to bring it down to the earlier year levels.

***Ashwin:*** Okay. Sir the salaried segment is not like a quarterly kind of phenomenon it is more clue with…..there will be some variations but not necessarily any pattern to it right?

***V. Raghu:*** No pattern to it because that is the salary that we know.

***Ashwin:*** Okay. Second question is in terms of….in the home loan segment, what will be the proportion of self-construction kind of this thing and where you will be lending towards buying of flat in a project kind of a thing? So what will be the mix between the two?

***V. Raghu:*** See, self-construction cases account for nearly about 44% of my book at the end of June and the real purchase of flats or houses is accounted for about 27%.

***Ashwin:*** Okay. Sir in this self-construction kind of cases how will the disbursement typically be structured as in….?

***V. Raghu:*** According to the stages of construction. We release the funds in about four or five stages.

***Ashwin:*** Okay but how do you sort of monitor this?

***V. Raghu:*** By a personal visit by the bank's manager. He has to give a certificate, he has to give the evidence of how much of construction has happened; he has to verify how much money we have spent already as his contribution…. We look into all these things and then only money is released by the company.

***Ashwin:*** Okay thank you.

***Moderator:*** Thank you sir. The next question comes from Mr. Vivek from Best Pals. Please go ahead.

***Vivek:*** Good afternoon sir. Sir my first question is regarding the process. We have loan book to self-employed so how do we take care that their personal balance sheets are not levered to an extent that can affect their payment to us apart from having home as mortgage, but how do we take care in our process that the personal balance sheet which may be unofficial so how do we take care that their personal balance sheet does not affect their cash flow.

***V. Raghu:*** Our bank manager prepares the bank balance sheet for the loan purposes. We don't go by the information given by the borrowers. We do the due diligence ourselves. We prepare the balance sheet. We arrive at what will be the disposable income and based on that we determine the quantum of the loan.

***Vivek:*** My doubt is if suppose there are unsecured loans, loans that you have been taking without our knowledge, have you seen incidence of those kinds of things in your loan book or that has never happened? People have taken loans so they are not able to pay the EMI to us.

***R. Varadarajan:*** You are right. This is the key there. Most of our branch managers are local and they are available there. Before actually deciding, underwriting a loan proposal, they make local enquiries; they know particularly in tier two, tier three cities and all they know each other, they find out his borrowing pattern, where from he borrows. So everything is factored in while we decide the loan proposals. Are you able to hear?

***Vivek:*** Yes sir, please tell me.

***R. Varadarajan:*** Therefore the bank manager takes care of these kind of issues. He also finds out what are his borrowings from local money lenders also. That is also factored in. Mostly we are able to identify those factors also while underwriting the loan proposal.

***Vivek:*** Okay so in the process he is taking care of all these things right, the branch manager?

***R. Varadarajan:*** Yes.

***Vivek:*** The second question is the concentration of customers in the sense what kind of customers…..I am new to the company so I may be asking questions that you would have answered already. What kind of customers do we normally get or which industry do we deal in more? Agriculture or traders or what kind of customers do we lend more to?

***V. Raghu:*** Almost all types mostly it is retail traders.

***Vivek:*** Okay so to retail traders but there is no specific concentrate of an industry? It is just general retail traders?

***V. Raghu:*** (Audio break) where we have concentration or something like that, no.

***Vivek:*** Okay. Can you give us the concentration across….in Tamil Nadu which areas are we most predominantly present in, in the sense where our loan book is predominantly concentrated in?

***V. Raghu:*** Branch wise I may not have the information right now….In Tamil Nadu which are the branches which are accounting….I think we have two thirds of the business probably coming in from the tier two, tier three which is in Tamil Nadu in the various districts. I think we have mainly business coming in from the outskirts of Chennai city, we have business coming from Coimbatore and the surrounding areas like Namakkal, Erode, Thirupur, then we also have business coming in from Madurai and surrounding areas; we have Trichy and surrounding areas and also down south Tirunelveli. I think that's why the business is widely spread across the districts in Tamil Nadu.

***Vivek:*** Thank you. And the last question is sir, on the sanctions with growth even is not great in the Tamil Nadu, rest of India basis if I exclude the Tamil Nadu; even if I put Tamil Nadu as zero, the rest of the sanctions have grown by 10%, 15% max. So what explains that in a sense the sanction growth apart from Tamil Nadu is there? Are we seeing a genuine slowdown in (not clear) or is it because of competition or is it a one off thing?

***V. Raghu:*** It is a one off thing in Tamil Nadu this time.

***Vivek:*** Rest of Tamil Nadu also our sanctions have not grown so much if you see. Even if I assume that Tamil Nadu has not grown at all.

***V. Raghu:*** No, no we have seen growth coming in from other parts also.

***Vivek:*** For 1Q sanction growth has been good in rest of Tamil Nadu is what you are saying?

***V. Raghu:*** Yes. It has been normal as usual in other areas. We are also working out to ensure that the same level of growth in the second quarter. We are working on it. So we will be able to do that I think….that's what we are expecting. Regarding your question on concentration, in Tamil Nadu you asked which area was specifically driving the growth. We are present in 27 districts out of 35. So almost 27 districts of Tamil Nadu we are present and as my ED told, it is coming mainly from peripherals of Chennai, Coimbatore, Tiruchirappalli, Madurai, Namakkal, Salem. These are the major areas where from we are getting the business but otherwise we are present in 27 districts now. Our aim is to have our presence in all the districts very soon.

***Vivek:*** Okay. Thank you sir, that's all from my side.

***Moderator:*** Thank you sir. The next question comes from Mr. Digant Haria from Antique Stock Broking. Please go ahead.

***Digant Haria:*** Hi sir congrats on good numbers despite the election impact. My question was are we seeing….you said that you are seeing competition heat up a little bit? Can you give a little more idea on this as to are there competition region specific, or in the self-employed side or where is it and do we think that this will impact our 25% sort of growth guidance for the loan book that we have?

***V. Raghu:*** I don't think this will have an impact on the growth guidance. I think the 25% was given mainly while talking about competition; it is some of the existing banks and larger HFCs trying to take over the loan. It is not that they are doing fresh additions themselves. They are trying to take…..some of the companies which were saying that we used to sanction loans to those people rejected by them, now they are taking over loans from this company. That's where I said the competition. It is not competition at the observation level….

***Digant Haria:*** In that case we will have to have our disbursement grow even faster maybe the repayments will be faster right?

***V. Raghu:*** That is the way we have to look at you are right.

***Digant Haria:*** Okay and the other states have they started contributing well? Like the states we entered in 2014-2015, what has been our experience and what do we expect from the states because you said….

***V. Raghu:*** Growth has been coming from the south and west only the east's contribution is very, very low.

***Digant Haria:*** Right. And in Tamil Nadu we still contribute to two thirds of the incremental growth? We still remain very positive….?

***V. Raghu:*** I think so.

***Digant Haria:*** Alright thank you so much.

***Moderator:*** Thank you sir. The next question comes from Mr. Nishant Shah from Axis Capital. Please go ahead.

***Nishant Shah:*** Hello? Sir just one question, how many of our customers will be new to the system? Like they will be entering, they will not have a CIBIL history or anything and how many of them will be new to Repco? Coming to Repco for the first time?

***V. Raghu:*** About 30% of my customers may not have CIBIL record.

***Nishant Shah:*** Okay.

***V. Raghu:*** As far as first time coming to REPCO, I think about 60%, 65% of the borrowers will be first time borrowers to us.

***Nishant Shah:*** Okay understood. About 30%, 35% would be repeat borrowers right?

***V. Raghu:*** Yes.

***Nishant Shah:*** Okay understood, thank you. Second question if I may, regarding the other geographies, currently about 62.6% comes from Tamil Nadu; in about what time can we expect this concentration to come down to say 50% or lower? In how many years can we expect that?

***V. Raghu:*** We cannot put a time frame on that because Tamil Nadu still has a lot of business to offer and we still have eight more districts to cover in Tamil Nadu and I don't think I will be in a position to put a time frame right now to bring it down from 62.5% to 50%.

***Nishant Shah:*** Okay, thank you sir, I am done, congrats.

***Moderator:*** Thank you sir. The next question comes from Mr. Rahul Ranade from Goldman Sachs. Please go ahead.

***Rahul Ranade:*** Hi sir thanks for the opportunity. Sir, I just wanted to understand what are satellite centers exactly and how do they differ from a branch?

***V. Raghu:*** Basically a branch caters to a radius of 25 to 30 kilometers. Beyond the 25 or 30 kilometers if you see a business potential, we start a one-man office there and that's why we call it a satellite center which will be attached to the base branch which is closer to that satellite center. So we start with a one man branch and that's why we call it a satellite center. Once the business of the satellite center reaches a breakeven level of let's say about 8 to 10 crores, we convert that into a branch and then start (not clear) for a new satellite center beyond 25 to 30 kilometers radius. I hope I was able to explain that thing.

***Rahul Ranade:*** Sure, understood. Just another question; I believe the total figure of 60% of non-salaried is for the overall borrower as a whole right including home loans and LAP right?

***V. Raghu:*** Yes.

***Rahul Ranade:*** Can you give us a split of how many of our borrowers are salaried, non-salaried similarly for LAP? A rough portion will do.

***V. Raghu:*** I don't think I have that sort of a break up right now; maybe I will get back to you.

***Rahul Ranade:*** Sure sir. Final question just upon the PCR, where do we kind of intend to take it by year end, March '17 around 70%?

***V. Raghu:*** Yes PCR…I think should be around….we'd like to take it to 70% by the end of March.

***Rahul Ranade:*** Okay and sir just one final question. I am just curious to know how do elections actually impact sanctions and disbursements. As in what are the borrowers thinking actually when they kind of hold back from approaching finance companies for loans?

***R. Varadarajan:*** Normally the property dealing, apart from the loan factor there are also cash portion transactions are there……we don't want it but it happens in the field. When there are elections around, such movement is totally restricted. We have 60% exposure to the self-employed employed where they are all cash earners, you know that. That portion they need to bring in the cash. Cash movement is totally restricted during the election period. That's why the number of registrations had drastically come down during those two months.

***V. Raghu:*** Not only that this time people were waiting as to which party will come back to power, there was a lot of speculation going on, on that and that is the reason why they were postponing their decision and that has also affected our business in Tamil Nadu.

***Rahul Ranade:*** Okay but will affect the sanctions as in there is not a big time gap between sanction and disbursement is it?

***V. Raghu:*** Basically between the sanction and disbursement there is no huge time difference, but the reason why disbursement may not be growing very high is also since 44% of the business is self-construction where the money is released in stages. That also adds to the fact that there is growth in the sanction and disbursement. Sanction maybe more, but the disbursement may not be to that extent, it takes time when you are doing 44% towards the self-construction.

***Rahul Ranade:*** Okay, so given the sanction growth actually for the year, if you see year on year was low so I was kind of thinking that even the sanctions get affected because of the thing about cash and all…

***V. Raghu:*** No, there is also the base factor. Last year we had a terrific growth in the sanctions during the first quarter, I think it was 50% growth in the sanctions during the previous year.

***Rahul Ranade:*** Okay it may only a base effect kind of a thing.

***V. Raghu:*** Yeah, yeah.

***Rahul Ranade:*** Okay and sir just one final question if I may, just looking at the LAP NPAs have gone up even say YOY from 3.3% to 3.7%....what was the reason for that even on a seasonally adjusted basis also it seems to be high.

***V. Raghu:*** No, I think it is within our expected levels only, the second seasonality factor only. I think though these NPA levels maybe looking high right now at the end of the quarter, at the end of the year you should see that. Secondly, they have not resulted in any credit loss for the company. We have been able to recover the money subsequently. I think we are comfortable at this level.

***Rahul Ranade:*** Okay so a lot of this has been recovered you are saying from 3.7%?

***V. Raghu:*** Yes, we have.

***Rahul Ranade:*** Okay sir, thank you very much.

***Moderator:*** Thank you sir. The next question comes from Mr. Ajay Khandalwal from BOI AXA Mutual Fund. Please go ahead.

***Ajay Khandalwal:*** Thanks for the opportunity. Sir my first question is on the liability mix. So the capital market borrowing is increasing for us, where do you expect this to be there for the year?

***V. Raghu:*** I think we are slowly trying to improve this contribution for the capital market that depending on the interest rates to the market. We are going by the trend in the market, we will take a call later whether to go to the capital market or to borrow from the banks which of course the interest rate differential today between borrowing from the NCD and the bank market, it is not very high. Secondly, if you borrow from the banks it is coming for a longer period of 10 years and 15 years; whereas NCV today the market's appetite is only for a three year paper. As a housing finance company, probably I would like to look at slightly longer term paper. So depending on the appetite of the investors and our fund requirement we will take a call. But accordingly this will vary between borrowings in the bank and the commercial market.

***Ajay Khandalwal:*** So sir what is the difference right now?

***V. Raghu:*** I think difference is hardly about 20, 30 basis points….on an annualized basis it is about 70 basis points.

***Ajay Khandalwal:*** Okay. Sir my other question is how do we treat professionals? Do we treat them as non-salaried people?

***V. Raghu:*** Professionals are non-salaried.

***Ajay Khandalwal:*** Sir what is the percentage of professionals then?

***V. Raghu:*** If you take the entire non-salaried 60%, 20% of that is professionals.

***Ajay Khandalwal:*** So around 12% of the overall?

***V. Raghu:*** Yes 12% of the total book. It is an approximate figure; I am just giving you a ballpark figure.

***Ajay Khandalwal:*** Yeah, yeah, that's okay. Sir last question on LAP, how much is DSA sourced and how much is in-sourced?

***V. Raghu:*** As of now it is mostly sourced by the Company, the DSAs are yet to bring business for us. We have adopted the DSA model only in Maharashtra and Gujarat and we are now slowly opening the DSA model in other states. I think they have not contributed much to the business as of now.

***Ajay Khandalwal:*** Okay perfect, thanks a lot.

***Moderator:*** Thank you sir. The next question comes from Mr. Bobby Jairan from Falcon Investment. Please go ahead.

***Bobby Jairan:*** Sir I have two questions. The first one, how far are you prepared to take your non-salaried book as a proportion of your total loan book? And the second question is, there have been a lot of articles in the media about the general level of leverage in the Tamil Nadu specially farmers, fishermen and those sorts of people and there is also a lot of lending going on for these people. So what is your view on this and specifically do you lend to farmers? What proportion do they form of the total? Thank you so.

***V. Raghu:*** So (not clear) we would like to probably stabilize at this level as far as the salaried segment and the self-employed segment is concerned. We'd like to stabilize at the current level. The second question is we have zero exposure to the farmers. We don't lend to farmers at all.

***Bobby Jairan:*** Okay but in general what is your view on second and third tier that people are taking on more and more debt, so what do you see on the ground?

***V. Raghu:*** I don't think I am in a position to comment on that right now sir unless I study it in detail.

***Bobby Jairan:*** There have been a lot of these kind of periodic crisis in the different states right? Andhra Pradesh had it a few years ago and could this be a precursor to something more serious, I am sure you must have a….

***V. Raghu:*** I think what you are talking about is more in the micro credit section not in the housing finance sector. Basically it is one amount given to a person, getting the funds back at a very high interest rates because the micro finance companies have been lending at a very high yield and that's why they got into a lot of problem and we don't expect that type of a situation in the housing finance sector.

***Bobby Jairan:*** So are they a more prosperous is what you are saying?

***V. Raghu:*** No I don't say they are more prosperous, they live beyond their means.

***Bobby Jairan:*** No, the people who you are lending to are they in general more prosperous so you don't see them very highly leveraged…..

***V. Raghu:*** I am not saying more prosperous because we know what is going to be the repaying capacity of the borrower, and then you also have a security which is there. I think to that extent where a majority of the Indians cannot afford to have more than one house during their life time, so they would not like to default on the housing loan. I think we work for that type and do business.

***Bobby Jairan:*** So you are more confident of their repayment capability here compared to the micro finance. Okay related to that even "Drew Finance" right it has around 40% exposure to non-salaried however it does not see the kind of volatility that you see, why is that? Is that a Tamil Nadu issue?

***V. Raghu:*** Yes I think so, since we have a major exposure in Tamil Nadu, I don't think I will be in a position to comment on the "Drew this thing because they are in a different region and we are operating in a different region.

***Bobby Jairan:*** So it is not that much of a salaried versus non-salaried it is more an issue pertaining to different states is that?

***V. Raghu:*** It is something to do with the cash flows of the self-employed people. If the cash flow is more or less steady, you will not find this sort of volatility.

***Bobby Jairan:*** Okay so it is more or less a state issue, alright. Thank you very much.

***Moderator:*** Thank you sir. The next question comes from Mr. Sarub Dass from Franklin Templeton.

***Sarub Dass:*** Hello thanks for the opportunity, am I audible now?

***V. Raghu:*** Yeah you are audible.

***Sarub Dass:*** Thanks, if we talk about the origination mix right now between branch and loan melas and the others.

***V. Raghu:*** We have about I think 50% to 60% of the business coming still through the loan camps at the branch level, the remaining is basically the reference and the walk ins we get the business and the VSAs also get 2% of the business.

***Sarub Dass:*** So the remaining 38% is essentially branch walk ins and reference?

***V. Raghu:*** Yes.

***Sarub Dass:*** Is this mix different in let's say a Gujarat or a Maharashtra or some other new states that you are getting in?

***V. Raghu:*** I think it is almost similar there. The VSA's contribution comes in Maharashtra and Gujarat, the 2% that's the only major difference between the southern states and the western states where the VSAs are still bringing about 2% of the business. Other than that the mix is almost the same. In Tamil Nadu it is 60% or 65% coming in through the loan camps and the remaining is walk ins.

***Sarub Dass:*** In terms of your overall mix of NGOs, while you highlighted 44% is self-construction, if you can also give us a sense of how many would be individual houses and how many could be multi-storied especially given that some of the areas like Coimbatore, Chennai can have even in the outskirts a few multi-storied apartments?

***V. Raghu:*** 34% self-construction are all individual houses, they are not apartments.

***Sarub Dass:*** Right, of the balance?

***V. Raghu:*** Essentially 27% is the purchase, where they purchase either it could be an apartment or it could be a second hand house which they have purchased. 27% is that and 15% is the LAP loan, we have another 5% we have given only for plot purchase for this they will construct later.

***Sarub Dass:*** Right in terms of origination model around let's say some of the larger cities is it possible to do this sort of lending with developer tie ups? Let's say you become the preferred financier you have your sales people with developers?

***R. Varadarajan:*** You are right; we are also working on it. We have tied up with two or three developers, we have tied up with preferred financier and in discussion with others also, particularly we would like to do the affordable housing where the cost will be about 25 lakhs. So we are in discussion with them.

***Sarub Dass:*** Okay. Is there a sort of developer payout arrangement there or that's not the case.

***R. Varadarajan:*** No nothing like that.

***Sarub Dass:*** Right. In terms of your spreads, if I look at a slightly longer time frame let's say first quarter of 2015 to now, roughly two years, spreads are largely flat, however if I look at the share of non-salaried, that has moved up a bit and the share of LAP I think has crossed 20% now. So from a mixed perspective we have slightly higher yielding and higher spread customers, but overall spreads are flat. So is there some spread pressure in the individual segments?

***V. Raghu:*** Yes there is a pressure; yes they do the segment especially in the salaried class.

***Sarub Dass:*** Okay and is there a possibility for an existing borrower to reset at a lower rate by paying a one-time charge?

***V. Raghu:*** Yes it is possible.

***Sarub Dass:*** Do you see that borrowers exercising that option often?

***V. Raghu:*** Not often. We do get some requests here and there for that but we have not seen it very frequently.

***R. Varadarajan:*** Particularly if they find that some other HFC is offering them or some other bank is offering them at a lower rate of interest, they try to have a discussion with us and find out whether we can offer them a final rate of interest by paying a one-time fee, we also examine it and try to retain them. That's the way it works.

***Sarub Dass:*** Right. Finally in terms of your funding mix, you did indicate that there is now just a 70 basis points differential and the tenure is not really matching. But just from a diversification of liability perspective and given that our rating now is reasonably good, do you think that in the next two years we have a much larger proportion of NCD CPs or we are still very dependent on the rates cycle?

***V. Raghu:*** In fact we have gone in for…..earlier if you see for about two years' back the entire liability was only from banks. Now we have gone in for NCD and CPs and the proportion has been increasing. Right now in the Q1 it is 10% of my liability is from NCD and CP only. If rates are favorable then we would like to further take it up, probably some 15%, 20% so that as you rightly said there should not be any concentration risk on the liability side also. We are aware of it and we are working on it.

***Sarub Dass:*** Finally a few small finance banks which got the licenses have indicated affordable housing as one of their focus segments. Some of them operate in Tamil Nadu. Are you witnessing some fresh competition from some of these and if yes, what sort of rates are you operating at?

***V. Raghu:*** In the field they are talking about it, but we are yet to feel it in the field.

***Sarub Dass:*** Right. Sorry squeezing in one more. If you can just talk about the incremental or the origination yields of the segments right now LAP and salaried and non-salaried individual loans?

***V. Raghu:*** The yield on the LAP is about 15% now; on the housing loan it is somewhere around 11%, 11.25%.

***Sarub Dass:*** For the salaried segment?

***V. Raghu:*** I am talking about the housing loan and the LAP I am not talking about the salaried and non-salaried. I think you have to give us at least one more quarter to find how the yields are going to come around?

***Sarub Dass:*** Right I was talking about non-salaried housing loans is that at 11.25% or higher?

***V. Raghu:*** They will get around 11 to 11.75% to 12% sometime depending on the risk factors.

***Sarub Dass:*** And over the last one-year have you seen any significant rate reductions?

***V. Raghu:*** Other than the salaries I don't think we have done any significant reduction in the interest rates.

***Sarub Dass:*** So salaried has come from 12 to 11.25 is it?

***V. Raghu:*** No, I think the salary the yield has come down…..the yield on the salary portion which is 11.97% in June 2015 has come down to about 11.70; for salaried it is from 11.76 to 11.45 about 30 basis points it has come down, the yield.

***Sarub Dass:*** Right which means the origination yield may be even lower from here.

***V. Raghu:*** That could be in the salary segment that's why I said we need one more quarter. We recently announced the 9.6% for the salaried.

***Sarub Dass:*** Sure. Thanks and all the very best for the future.

***V. Raghu:*** Thank you.

***Moderator:*** Thank you sir. The next question comes from Mr. Harshid Thoshniwal from ICICI Securities. Please go ahead.

***Harshid Thoshniwal:*** Hi good afternoon sir. I just had one question. Our capital tier issue is around 20%? I just wanted to know what is the scope of additional financial leverage being used for capital productivity.

***V. Raghu:*** Pardon? Additional….?

***Harshid Thoshniwal:*** I just wanted to know the additional financial leverage capability of yours to improve the capital productivity.

***V. Raghu:*** I think additionally we can go upto 10 times the leverage that is available to us. At least I think about 9 leverage. Leverage you are talking about the borrowings. As far as the capital adequacy is concerned, I think the regulatory requirement is 12, it is right now around 20 I think it can probably go up to 13 or 14 before raising capital again.

***Harshid Thoshniwal:*** Okay. Another thing sir how has been the growth in Gujarat and Maharashtra the two areas in which you have and are there any plans to move to further states?

***V. Raghu:*** I think as I told you the current strategy is to consolidate our position in the sales we are operating. The new geographies probably we will be looking at slightly later.

***Harshid Thoshniwal:*** Maybe two or two and a half years or a bit more longer?

***V. Raghu:*** It will be a year or two we haven't actually planned all that as of now.

***Harshid Thoshniwal:*** Okay sir thanks a lot.

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

***Hiren Dasani:*** Congratulations. Just one question in terms of the loan take over….one of the other participants was also asking this. Are you seeing this phenomenon only in the salaried segment or is it also there in the non-salaried segment as well?

***V. Raghu:*** It is mainly salaried segment and to a smaller extent, non-salaried LAP portion.

***Hiren Dasani:*** Where the other banks and NBFCs they are trying to…..

***V. Raghu:*** Yes, basically it is the NBFCs; in the non-salaried LAP it is the NBFCs.

***Hiren Dasani:*** Okay. If you look at the year on year gross NPAs across almost all segments they have gone down except for the LAP. So the seasonality….I know it is under your comfort zone but the seasonality impact cannot explain this right because year on year also they have done it?

***V. Raghu:*** Well I think there is no significant factor that has led to this increase and as I told you right in the beginning we are hopeful of recovering this money also in the coming quarters.

***Hiren Dasani:*** Okay but is it in one particular geography you are seeing or few large…..I mean it can be statistically insignificant number of loans….so….?

***V. Raghu:*** I think it is basically in Tamil Nadu we should be in a position to recover this money.

Okay and some of the election related cash flows and all might have also impacted…?

***V. Raghu:*** Yes as I told you, we should be in a position to recover this money in the coming quarter or in the next quarters.

***Hiren Dasani:*** Okay. What is the maximum loan ticket size which you would go for in LAP?

***V. Raghu:*** It is too massive a loan. I think depending on the repaying capacity we can go to any amount but it depends totally on the repaying capacity. We don't go only by the value of the security. We also estimate the cash flow even despite the LAP.

***Hiren Dasani:*** But sir, the average loan ticket size is about 1.7, 1.8 million right?

***V. Raghu:*** 13 lakhs.

***Hiren Dasani:*** So I am saying maximum would be like 50 lakhs, one crore or there could also be some….

***V. Raghu:*** No, no there are couple of cases where we have gone upto 5 crores also.

***Hiren Dasani:*** Okay.

***V. Raghu:*** So the median is 8 lakhs.

***Hiren Dasani:*** Sorry?

***V. Raghu:*** Average is 13 lakhs and the median is 8 lakhs.

***Hiren Dasani:*** But here could be one or two cases where you have gone to 5 crores as well.

***V. Raghu:*** Yes that's right.

***Hiren Dasani:*** Okay thank you.

***Moderator:*** Thank you sir. The next question comes from Anantara S. from Shubkam Limited. Please go ahead.

***Anantara S.:*** Hello?

***V. Raghu:*** Yes, go ahead.

***Anantara S.:*** Sir I would like to know your guidance on margin, spread as well as gross and net NPA and overall loan book?

***V. Raghu:*** I don't think I will be able to give you a guidance or anything like that. We expect to grow about 25% on the loan book year on year; that's what we have been planning for the last couple of years also. To that extent our margin and spread also should be around that level of what we are doing as of now.

***Anantara S.:*** And sir anything on the cost to income? Anything has been left out on the ESOP front on the employee expenses?

***V. Raghu:*** I think one transaction is left out under the ESOP scheme.

***Anantara S.:*** Okay but still we would like to maintain cost to income ratio in the limit in this quarter?

***V. Raghu:*** I think we will be able to reduce it and probably we will be in a position to maintain at this level.

***Anantara S.:*** Okay thank you.

***Moderator:*** Thank you so ma'am. The next question comes from Mr. Amit Ganatra from Invesco Investment. Please go ahead.

***Amit Ganatra:*** Just wanted two more details. Do you internally track installment to income ratio and LTV and can you provide those numbers?

***V. Raghu:*** Yes we do that. When your sanction cost in based on IRR in LTV only.

***Amit Ganatra:*** Currently what would be the installment to income ratio for your borrowers?

***V. Raghu:*** Retail is 50 on the book the IRR and the LTV is around 62.

***Amit Ganatra:*** And this is basically for the current book. At the time of origination typically what will the LTV be for housing?

***V. Raghu:*** In the case of salaried it can go upto 85 maximum; in the case of self-employed it can go upto 70, 75 maximum.

***Amit Ganatra:*** And for Home equity?

***V. Raghu:*** Home equity it is 60. Maximum is 60.

***Amit Ganatra:*** Okay fine thanks.

***Moderator:*** Thank you sir. The next question comes from Mr. Abhishek Agarwal from Equisearch. Please go ahead.

***Abhishek Agarwal:*** Good afternoon sir. If you see into your borrowing market the company is shifting to money market instruments at lower cost of funds right? In two years or so do you see any change in the spread? I think you said that you will keep it stable at 3%.

***V. Raghu:*** Which one? Spread?

***Abhishek Agarwal:*** Yes you are right.

***V. Raghu:*** We said we will try to maintain at 3%.

***Abhishek Agarwal:*** In case the cost of funds lower down in two years or so, will there be any impact on it.

***V. Raghu:*** I think sometimes we do pass it on to the borrowers the lower cost of funds, but that sort of the long-term policy of the company is concerned, we are not looking at a very high spread also. As long as we are able to maintain the spread at around 2.8 to 3.2 I think we should be happy with that.

***Abhishek Agarwal:*** And sir regarding competition if you see in the south market compared to your peers like Can-Fin he has 75% of his book in the south market, so how are you going to compete with that?

***V. Raghu:*** Which company you are talking about with 75% in south?

***Abhishek Agarwal:*** Can-Fin homes?

***V. Raghu:*** These kinds of competition will be there. Given the demand for housing finance, I think we should be in a position to maintain our share of the business.

***Abhishek Agarwal:*** Sir if I want to understand what's the outlook of the housing finance industry? If we see regarding last two years the industry is growing very well, so what's your outlook on it?

***V. Raghu:*** I think the housing finance industry will continue to maintain the growth what we have seen in the last couple of years around 16% to 18%.

***Abhishek Agarwal:*** Okay sir, thank you sir.

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