"LIC Housing Finance Limited

Q3 FY'24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY'24 Earnings Conference Call of LIC Housing Finance Limited, hosted by Axis Capital 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 presentation conclude. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you, and over to you.

Praveen Agarwal: Thank you, Yashshri. Good day, everyone, and welcome to the earnings call of LIC Housing. We have from the management team Mr. Tribhuwan Adhikari, MD and CEO, and Mr. Sudipto Sil, CFO.

I would request Mr. Adhikari to give us a brief overview of the results, post which we will open the floor for Q&A. Over to you, sir.

Tribhuwan Adhikari: Yes. Thank you. A very good morning, and welcome to all of you to the post earnings analyst call of LIC Housing Finance Limited. As you are aware, we have just declared our Q3 FY'24 results on the 2nd of February '24. Before I start the highlights of the Q3 results, I'd like to outline a few developments in the economy over the last quarter.

RBI has continued with the pause in the policy rates in Q3 and hinted to hold the repo rate steady for an extended period till the time inflation eases. However, the liquidity in the market was tight in the quarter due to which the short-term yields were at an elevated level throughout the period.

RBI's ensuing MPC meeting this week will provide better insights into the interest rate dynamics in the days to come. Further, with the government's projected lower borrowing program for the next fiscal bond yields are likely to stabilize.

Overall, demand scenario remains steady. The recent interim budget announcements in the areas of affordable housing for rural and urban areas is set to further strengthen the demand for home loans in the next several years.

The financial highlights of the quarter are as follows. Total revenue from operations at INR6,792 crores as against INR5,871 crores for the corresponding quarter of the previous year, registering a growth of 16%. Outstanding loan portfolio stood at INR281,206 crores against INR268,444 crores as on 31st December of last year, reflecting a growth of 5%. The individual housing loan portfolio reported a growth of 7% and now comprises 85% of the total portfolio, up from 83% a year ago.

Total disbursement for the quarter was INR15,184 crores as against INR16,100 crores. Out of that, disbursements in the individual home loans was INR12,868 crores as against INR13,580 crores for Q3 of FY'23, whereas project loans were INR375 crores as compared to INR427 crores for the same quarter in the previous year.

On the net interest income front, NII was INR2,097 crores for the quarter as against INR1,598 crores for Q3 of FY'23, a growth of 31%. Q-on-Q, net interest income is almost flattish against INR2,106 crores for Q2 of FY'24. Net interest margins for the quarter stood at 3% as against 2.41% Y-on-Y and 3.04% for Q2 of FY'24.

Profit before tax for the cost stood at INR1,448.69 crores as against INR593.01 crores, up by 144%. Profit after tax for the quarter stood at INR1,162.88 crores as against INR480.30 crores for the same period in the previous year, up by 142%.

On the business front, there has been a small improvement in the overall disbursement during Q3 as compared to Q2, though it is yet to show a positive on a Y-on-Y basis. As you are aware, we had made some significant changes in the organizational structure during Q1 and Q2, including introduction of new cluster offices and new area offices for underwriting of loans and for marketing. Though there was a relative slow start, a few of the clusters have already crossed more than 70% to 75% of the annual budget.

In terms of region-wise growth, states like Telangana, Karnataka, parts of North and Northeastern India are reflecting good growth. The reorganizational reorientation, coupled with the introduction of new technology platform in the earlier parts of the fiscal, which have caused some distractions however now are perfectly in place and there are no such issues. Sanctions in the wholesale segment showed an uptick though disbursement continued to be on the slow side.

The project loan portfolio continued a declining trend, both Y-on-Y and Q-on-Q. Asset quality has remained stable with an improved trend in the quarter. The Stage 3 EAD stood at 4.26% as against 4.75% last year during the same quarter. The total provisions as on 31/12/23 is INR6,890 crores, reflecting a provisioning coverage of 48% on Stage 3. No write-offs were taken during the quarter.

On the funding side, we have witnessed an increase in total cost of funds by 4 basis points, which stood at 7.70% as compared to 7.66% in the previous quarter, attributable to tighter liquidity conditions and increase in other benchmark rates like T-Bill and G-Sec. So with this brief introduction, I would like to invite you for your queries. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Sir, congratulations on a good quarter. I think the only thing where we are a little worried is the growth is not kind of coming in. In your opening remarks, I think you explained some organization-level changes that you've done in the first and second quarter. So just trying to understand, is it just temporary where because of our internal problems the disbursements are not accelerating?

Or would you say that even at the sectoral level in mortgages, the demand is a little weak, and to that extent, the competitive intensity from, I mean, banks or some other large HFCs is very high, which is where maybe we took that conscious decision of not kind of growing or disbursing at lower interest rates and so they have impacted your margins? So that's the first question that I have, sir.

Tribhuwan Adhikari: Yes. Thanks, Abhijit. Yes, a bit of all what you have said. Yes, in the beginning of the year, as I said in Q2 also and at the end of Q1 also, yes, there were major restructuring, which happened in the organization. One was on the technological front and the other is we changed our organizational structure from a 4-Tier to a 5-Tier structure. Yes, there were some initial hiccups in the technology implementation. That got settled somewhere around about August, August financial year of 2023.

On the restructuring part, we completely revamped our organization in the sense that we opened 44 new cluster offices and made them the, I would say, the center of operations of the company. Earlier, they were done by 24 back offices, so it was decided that we need to sort of increase the number of these operational offices or these hub centers or centers of activity, partly due to, number one, distribution of the workload, which we felt it was too much on the back offices; and majorly with the purpose of reducing our TAT.

Turnaround time of our disbursements of loans we were not very comfortable with. So with the -- I thought that with the opening of these cluster offices, decentralizing our operations, the TAT would improve and we are seeing visibility of improvement in TAT.

As far as the demand side is concerned, there is no significant downtrend in demand. The demand is there in the market. Yes, these 2 initiatives did take some time to stabilize, and as a result of that, the offtake was low. The other part of it was, yes, there was a conscious decision on the part of the company not to be overaggressive, not to go into very risky segments of market, conscious call in view of our experience of the past, a huge NPA, especially on the project front. So -- and of course, there was change in management, as you are aware. I took over in the month of August after the superannuation of my predecessor.

So these all contributed to the thing -- to the slightly tepid growth, if you may say, a growth of 5% so far. But things are in place right now. Things are in place right now. Quarter-on-quarter, we've been growing. And I'm pretty certain that Q4 is going to be much better than Q3. So this has been a year of consolidation for LIC Housing Finance, honestly. So we have consolidated our position with a marginal growth of 5% in the book so far. Q4 is going to be certainly much, much, much better. And in the next year, next fiscal financial year '24, '25 will be the year when LICHFL will start delivering.

Abhijit Tibrewal: Thanks for that honest answer. Sir, just wanted to understand the thing was on, again, asset quality. I mean, when I kind of look at our provisioning cover, it tends to remain volatile. I mean there are quarters where we see the provision cover coming down. There are quarters where we can see it going up. So I mean, just a limited request if you can have some stability around just provisioning covers.

And sir, lastly, just wanted to understand, from what I recall, we were planning to get into discussions with some ARCs for resolution in your project loans to co-develop loans book.

Had this seen any progress? And a related question, if you, too, sir, can help us with the segmental gross NPA across the 4 segments that we have? Thank you, sir.

Tribhuwan Adhikari: Yes, Abhijit, on the asset quality front, I think you would be witnessing that there has been progress. Yes, the quality of assets have improved. And let me tell you with a lot of surety that in the coming -- every quarter here and on, you will see an improvement in the asset quality.

As regards your PCR or the provision coverage ratio, yes, I agree in the initial part of the year has been up and down, right? I think, last quarter, it was 42%. Prior to that, it was slightly higher at 46%. This quarter reached at 48%. But I think it has settled down. Credit costs or the provisions, I think, it has settled down. And the Board has given us a guidance that the provision coverage ratio must reach 50% by the end of this fiscal. We are well on the way to achieving that. So I don't foresee any major changes in the PCR ratios in the coming quarters. So that is, I believe, taken care of.

Yes, you will definitely see improvement in the quality of the asset side. If I may bring in some perspective. From the figures, you would see that your EAD, Stage 3 EAD, has just gone down by about INR60 crores or INR70-odd crores. That does not reflect the true story. In fact, my EAD had gone down. Until the last day, it had gone down by over INR540 crores, INR550 crores. So we have recovered NPAs to the tune of INR540 crores.

Unfortunately, on the last day, 1 big loan account, which was in Stage 2, suddenly slipped into Stage 3, something unexpected. We were not expecting that to happen. So we took that hit of INR450 crores. And my Stage 3 EAD moved up by that.

So overall, we've been doing well. We are pretty aggressive on that. A large number of negotiations going on with big borrowers who are in default. On the other part, the borrowers who are not responding, we are employing whatever legal recourse is with us, SARFAESI and NCLT and IBC.

We see a few resolutions are in sight. But of course, all these sort of legal things, they do take time. There cannot be surety on that, and we are not relying too much on that. The more the effort is on sort of either regularizing or closing down of these other NPA accounts. So we are making good progress on that, and you will be seeing that in the coming quarters.

And the third part of it was the ARC part you were talking of. Yes, we have never gone into the ARC so far. In this quarter, yes, some progress has been made. We have finalized the ARC policy. The Board has approved it. An ARC committee has been formed in the corporate office. We have taken an external consultant who's going to guide us through this ARC process. And in the first phase, probably this month and in the next month, as a test case, we are taking 10 big loan accounts to the ARCs. Let's see how they respond and let them come back with it. It's basically testing of waters.

So if everything goes on well and we are comfortable with it, next year, I think, we have a huge loan pool, which can be given to ARC. So next year, I believe, you will see the real -- the company taking a real call on ARCs in the next fiscal. Right now, we're going to -- going for a test case scenario where we're going to take 10 loans to the ARCs probably this month -- end of this month or early next month.

Abhijit Tibrewal: Got it, sir. And then the last question I had on the segmental level NPAs that you report across our 4 segments.

Sudipto Sil: Yes, Abhijit. Just please note down. Overall, it is 4.26%. In terms of IHL, individual home loans, it is 1.71% months. In terms of the NHC, that is non-housing corporate, which includes the project finance, it is 40.75%. And in the non-housing individual, it is 6.5%.

Abhijit Tibrewal: Got it. So this is useful and thank you very much and all the very best to you and your team.

Moderator: Thank you. We'll take the next question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Yes. So the question was with respect to the coverage on Stage 2 and Stage 1 assets. So if we just try to back calculate that looking at INR558-odd crores on Stage 2 and INR513 crores in Stage 1, there's a drop in Stage 1 provisioning to less than maybe 20 bps now and even Stage 2 coverage down to less than 4.5%. So just wanted to get -- normally, it used to be like 7%, 8% in Stage 2 and 25 to 30 basis points in Stage 1. So is it like more moving into Stage 3 from Stage 1 to Stage 2 and that's the reason maybe credit cost is still continuing to be low?

Sudipto Sil: No. Actually, if you look at the Stage 2, there -- actually, there is a reduction in the Stage 2. Overall amount of the EAD in Stage 2, it has come down from about INR14,000 crores to around INR12,700 crores. And as I mentioned -- as we mentioned some time back, 1 account, which was in Stage 2 has moved to Stage 3, which was carrying -- as it is, it was carrying a higher amount of provisioning. So that would probably be the reason why you're seeing the total ECL in the Stage 2, I mean, optically showing a decline in the -- as far as the PCR is concerned.

Kunal Shah: Sure. And this was INR450 crores account, you said?

Sudipto Sil: Yes.

Tribhuwan Adhikari: yes.

Kunal Shah: Okay. And the Stage 1?

Sudipto Sil: Again, the provisioning was almost 40%.

Kunal Shah: Okay. This was 40% provided?

Sudipto Sil: Yes.

Kunal Shah: Okay. And if we look at Stage 1 provisioning, then that is also coming on below 20 basis points. Any reason Stage 1 being low compared to 25, 27 basis points over past several quarters?

Sudipto Sil: No. It was 25 basis points. It was 25 basis points in September. Now it has moved to 20 basis points. So here also, we were carrying an extra provisioning because of completion of the curing period. So there were some accounts which have actually already been performing, but we were carrying slightly higher provisioning because the curing period was not completed. Now we have come back to the ECL-led model. And over and above that, also we have provided a management overlay to buffer it up.

Kunal Shah: Okay. Okay. So now it should be in this range or we should see again...

Sudipto Sil: Yes, it should be in this range. By and large, it should be in this range.

Kunal Shah: Okay, okay. Got it. And secondly, with respect to growth again. So obviously, the guidance was always on a much higher side. We are yet to deliver that. If you can just give us the month-on-month traction just to gauge, right? Maybe since IT also got implemented in August, maybe in the early part of the quarter, it wouldn't have been that strong, but if we can just get some month-on-month trends to gauge how the Q4 would look, yes?

Tribhuwan Adhikari: Yes. Month-on-month, it's something like this. October was INR4,500 crores, right? You're talking about Q3, right?

Kunal Shah: Yes, yes, yes.

Tribhuwan Adhikari: October was INR4,500 crores. November was INR4,700 crores. And December was about INR5,700-odd crores. Total for the quarter was INR14,800 crores.

Kunal Shah: Got it, got it. Perfect. Yes. And just last clarification. In terms of the IHL NPA, you highlighted 1.71%. How much was it in the last quarter, Q2?

Tribhuwan Adhikari: 1.84%.

Kunal Shah: 1.84%. Okay. So that's come off from 1.84% to 1.71%?

Tribhuwan Adhikari: Yes.

Kunal Shah: Okay. Got it. Thank you. Thanks and the all the best.

Tribhuwan Adhikari: Thank you.

Moderator: Thank you. We have our next question from the line of Shweta Daptardar from Elara. Please go ahead.

Shweta Daptardar: My previous question was answered. Just one on NIM outlook. So you had mentioned last time that NIMs are peaking out. So how is the trajectory looking there?

Tribhuwan Adhikari: Shweta, the NIMs that you see at the end of the quarter is 3%. Last quarter was 3.04%. So I think we've done reasonably well to restrict the downside by just 4 basis points. Going forward, yes, with the constrained liquidity in the market… Yes. As I was saying, the NIMs at the end of this quarter -- NIM as of the end of this quarter is 3%. Last quarter was 3.04%. So we've done well to limit the downside to just 4 basis points. Going forward, we do see that there will be pressure on NIMs in view of the very constrained liquidity in the market. But I think we will be able to manage it. I think worst-case scenario, you can see a downside of 10 to 15 bps, not more than that. So a guidance of NIMs over 2.8% to 3% is what I'd give for Q4.

Shweta Daptardar: Okay. And sir, because I was also coming from the fact that the incremental cost of funds have spiked. So yes, but you already gave the guidance. So we'll further see 7.7% climbing?

Sudipto Sil: Yes. As far as the incremental cost is concerned. During the year, the increase on the total weighted average cost has been around 7 basis points and 4 basis points have come in Q3. Now what we have witnessed in the just last few days post the government announcement of the borrowing program for the next year, bond yields have come off. And bonds yields have come off by almost 7 to 8 basis points.

So though there is a liquidity tightness and probably March here we might see further liquidity tightness happening, there is a little bit of remission, which has come in because of the government's proposed borrowing plan for the next year. So I would say it will counterbalance each other out. So that gives us the confidence that probably in Q4 we may not see too much of a spike in the cost of funds. We already see a little bit of, for example, after the budget announcement, bond yields have come down by almost 7 to 8 basis points.

Shweta Daptardar: Sure. The guidance help, sir. Thank you.

Moderator: Thank you. We have our next question from the line of Ramana Murthy from RBS. Please go ahead.

Ramana Murthy: This is Ramana Murthy here. Thank you for giving me an opportunity to ask one question. Regarding the provisions, etcetera, I think management has explained very well. I have a slightly different question. This is as a shareholder, so I'm a shareholder also. Now there are 3 points. One is what is the company's dividend policy because going by the EPS year after year, the dividend declared amount year after year is hardly any amount, is not at all comparable with other competitors.

Second, since from the inception, company has not declared any bonus so far. Company has got huge results. What is the plan for rewarding the shareholders who have been with the company since long time? Third, whether the company has got any plans to come out with a QIP or rights issue because there's rumours that are about tightness of the liquidity, etcetera, are happening. Why can't the company think of rewarding shareholders by rights issue?

These are the 3 general points I just wanted clarity.

Sudipto Sil: Sir, as far as the capital infusion is concerned, I think the company is right now well capitalized and the capital adequacy is close up to 19%, slightly more than 19%. So at this point in time, there are no plans of raising any capital, number one. Number two, you referred to the dividend payout is generally around 17% to 20% of the profits and that has been fairly consistent. Obviously, going forward, once the profits, etcetera, improve, then probably the payout -- I mean, the actual dividends may increase. Otherwise, also, if you see for a company which is having an ROE of around 16%, you can rest assure that your company is within the -- I mean, your investment within the company is growing at a much, much faster rate and a better rate as compared to any other comparable investments.

Ramana Murthy: What about bonus for -- any plans to declare bonus?

Sudipto Sil: No such, no such, no such.

Ramana Murthy: Okay. Thank you.

Moderator: Thank you. We have our next question from the line of Shubranshu Mishra from PhillipCapital. Please go ahead.

Shubranshu Mishra: Only two questions. The first one is on the Stage 3 PCR. We've been running an upwards of...Sir, the first one is on PCR. So we have Stage 3 PCR upwards of 45%, 46% for quite some time and we are running a secured book. So 45%, 46% or even 50% PCR guidance generally tends to indicate that it's -- we are either running an unsecured book or that is the kind of LGD we're expecting on our loans. So if you can clarify on that. Second is that almost 99% of our assets are floating rate and 52% of the borrowings as NCD. So as in how the rates come off in the near to medium term, would we see our NIMs compressed?

Sudipto Sil: As far as your first question regarding the PCR, you have to probably keep in mind that we've got a significantly higher levels of NPA on the builder segment of in the wholesale book. So it is to obviously create some kind of a buffer for that. Having said that, the fact is that we are expecting a lot of recoveries, including ARC sales. So probably 50% is kind of an optimal number. There are no loans, which are given unsecured. That is something I want to very clearly outline. There are no unsecured exposures or unsecured book.

Then coming to your other query pertaining to margin outlook in a declining rate scenario is, obviously, as you have very correctly observed, around 50% of the liabilities are fixed, whereas entire asset pool is -- almost the entire asset pool is floating. But this has significantly changed from the last rate cycle, where about 75% to 80% was on the fixed rate liability side from where we have scaled it down to about half and half. Further, we are also exploring other tools to ensure that the movement of liabilities is in line with the movement of assets as and when the rate cycle reverses. So the objective is to ensure that we are able to protect the specs.

Shubranshu Mishra: Sure, sir. And if I can just squeeze in one last question. Sir, how many builder loans are there in this Stage 3 numbers, sir? What's the value? And how many?

Sudipto Sil: So in terms of Stage 3, total EAD in Stage 3, and this is the entire pool of not only the builder loans, but also the other non-housing corporates because that is how the classification goes nowadays with the regulator. So that total amount of Stage 3 is around INR6,100 crores as on December 2023 out of the total asset pool of INR15,000 crores, which includes about INR8,500 crores of project loans and about INR7,000-odd crores or INR6,500 crores of other wholesale exposures.

Shubranshu Mishra: And how many -- in terms of count, how many builder loans are these, sir?

Sudipto Sil: Around 230 to 240 in terms of builder loans only.

Shubranshu Mishra: 230 to 240 builder loans, sir?

Sudipto Sil: Accounts.

Shubranshu Mishra: Okay, sir. Sure, sir. Thank you.

Moderator: Thank you. We have our next question from the line of Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: So in terms of margins, like you said, right, in Q4, we'll be maintaining 2.8% to 3%. Would you be kind enough to guide for FY'25 as well if we'd be able to sustain these kind of margins? Or considering competition, we might look for more growth and probably some compression on margins?

Sudipto Sil: Yes. As far as margin outlook is concerned, I think there are a lot of moving parts, including the very big question being debated about the rate reversal cycle. So the objective, obviously, of the company will be to maintain as we would be seeing, despite a falling contribution from the wholesale book, the margins that we are reporting in the 9 months is almost half a decade or 7-year high. So the -- obviously, there has been a focus on profitability in terms of the asset growth, and that will certainly continue in the next year as well.

Jigar Jani: Right. And sir, how much of our asset book would be EBLR mix? And how much would be MCLR mix on the IHL side? Yes. So I was asking, sir, how much of our IHL book is EBLR linked and how much is MCLR linked?

Sudipto Sil: No, it is all internal PLR.

Jigar Jani: Everything is internal PLR?

Sudipto Sil: It is not linked to external benchmark.

Jigar Jani: Okay, sir. Understood. And sir, the last...

Sudipto Sil: Entire book is linked to our internal benchmark, PLR.

Jigar Jani: Okay. Understood. And sir, lastly, on credit cost. We had guided for 55-odd bps of credit cost for this year. What would be our guidance? Will we still continue with this 10 to 15 bps guidance of credit cost reduction next year?

Sudipto Sil: I think, largely, that should be in line. I think -- I mean, as you have mentioned, at the beginning of the year itself, we had given an indication that it will be ranging between 50 and 55 for this current financial year. And till now, we have adhered to that. Next year will be lower.

Jigar Jani: Okay. Understood. Thank you so much for answering my questions and best of luck.

Moderator: Thank you. We have our next question from the line of Renish from ICICI. Please go ahead.

Renish: Just 2 questions from my side. One on this regulation about the deposits. Now incrementally, if we have to shift from a deposit to, let's say, market borrowing or a bank borrowing, of course, those funds will come at a lower cost even if we assume rate remains where it is right now. So does it translate into lower cost of fund in next 2 quarters?

Sudipto Sil: See, Renish, if you see our deposit book, it is around INR10,000 crores or INR11,000 crores, whereas the last reported net-owned funds will be closer to INR30,000 crores. So we are well below the revised norms of 1.5x any which ways.

Renish: Correct, correct. No, on the stock front, I agree. But incrementally, then we have to diversify, right?

Sudipto Sil: No. I think the exposure of -- I mean, the share of deposits and the overall liability is around 5%. Certainly, we would like to increase a little bit just for the, I would say, purpose of diversifying the sources because till now we are largely dependent on the wholesale funding. Obviously, having a deposit license, we would likely also diversify into retail liability side. That will be a different strategy. That will be basically a diversification strategy and will have no impact on cost.

Renish: Got it, got it. And just a last question again on the growth side. So let's say, looking at the month-on-month improvement on the disbursement run rate, which you just disclosed, it is fair to assume that the December disbursement run rate fairly sustained in Jan, and hence, we expect a much better Q4 than Q3 in terms of disbursement?

Tribhuwan Adhikari: Yes, definitely. Definitely. As I said, we've been growing quarter-on-quarter and all our -- the basic issues, which were holding us back are settled. So Q4, as it is last year, was because of this rate hike by -- repo rate hike by RBI Q4 was slightly, I would say, low last year. So definitely, in Q4, we are going to see a very good growth in Q4 as compared to Q4 of last year and definitely better than -- much better than Q3 of current year.

Renish: Got it. And just a last part. So would you like to give any growth guidance for FY'25?

Tribhuwan Adhikari: Well, let's take it. We are, right now, as I said, we are in the consolidation phase. We are trying to consolidate this year. Looking forward to Q4 right now and trying to deliver an excellent growth, which would probably be appreciated by all of you. We'll take -- we have a strategy meet coming up over the Board in March. We'll take a call on FY'24, '25 in March.

Renish: Got it. And so nothing left on the restructuring and any tech part, right? I mean those things are behind now and we are...

Tribhuwan Adhikari: No, no. A big part of the restructuring part is already settled right now. Yes, the tech part, not many things envisaged. Basically, the change in tech or the migration to a new tech platform was basically to help us with our digital or what we wanted to do on the digital front. So we'll be able to go digital -- on the digital front in a big way in the coming fiscal. So otherwise, the lending platform is totally settled. But yes, lots to do on the digital front in the coming quarters. And in the next fiscal, you're going to see a lot more digital initiatives for us, on-boarding of customers, sourcing leads, conversion of leads, etcetera, etcetera.

Renish: But then does that pose a risk to the disbursement in FY'25 or no?

Tribhuwan Adhikari: No. Not at all. This is going to help us onboarding of customers and increasing our disbursement and increasing our book. There's no risk at all, there's no risk at all.

Renish: Got it. Helpful, sir. Thank you very much and best of luck, sir.

Tribhuwan Adhikari: Thank you.

Moderator: Thank you. We'll take our next question from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Congratulations on good numbers. Just 2 questions. What will be the incremental yield for home loan and nonhousing individual loans?

Sudipto Sil: Incremental means that going forward or it was -- the number that you're asking for is -- for the...

Rajiv Mehta: No. The disbursement yield?

Sudipto Sil: Disbursement yield for this overall for the December quarter was around, say, 9.6% or thereabouts, including all pieces of business put together. And right now, we do have an offer, which has come up for the month of January for the fourth quarter. But overall, maybe some -- it is likely to decline maybe 2 or 3 basis points at the most from whatever it is as of December.

Rajiv Mehta: Okay. And as of now or for the quarter, it will decline by 2, 3 basis point only?

Sudipto Sil: For the quarter, for the quarter.

Rajiv Mehta: Okay, okay. And so just on the funding side, so if you were to borrow 3-year money or 10-year money right now from the bond market after we -- having some cool off in the bond yield, what will be that likely rate?

Sudipto Sil: Yes, I'll tell you, sometime in the third week of January, 10-year paper, we had ourselves the 10-year paper that came at 7.82%. And I think yesterday, today, we are in the market again. We are doing it at 7.69%. So there has been -- this is after the budget. So there is at least a 10 basis points pullback in the incremental 10-year.

The yield curve continues to be a bit inverted, but there has been a parallel shift of the entire yield curve post the budget -- interim budget with the revised numbers were -- and the projected numbers were of the next year bottom. So 7.65% is probably when we will do the deal today, less than 7.70%. And probably we'll be in the market in the next -- very shortly and it was 7.82% just about 23rd or 24th of January.

Rajiv Mehta: Got it, got it. And lastly, on the NCD stock, is there any adverse adjustment -- is it behind in terms of any low-cost entities coming from maturity and -- which is why they had to be substituted by higher costs? Or maybe the other way around, so this churn of the existing NCD stock, would the adjustment, incremental adjustment, be net neutral or slightly negative or positive?

Sudipto Sil: I would say that there will be always some high-cost borrowings, which will run off and some new cost borrowing depending upon when you would have contracted those bonds. So I would say to that extent, we are agnostic because some quarters you might see a higher kind of a bond running off. Some other quarter, you might see a lower coupon running off. But that really does not make too much of an impact because we are regular borrowers in the market and over a period of time it gets settled down.

Rajiv Mehta: Got it. Thank you for answering my questions. Best luck.

Moderator: Thank you. We have our next question from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Congrats on the quarter. Just wanted to clarify the October number we mentioned was INR4,500 crores. Did I read currently?

Tribhuwan Adhikari: Yes. That was -- this is on the retail side, right.

Piran Engineer: And that's home loan plus LAP, right?

Tribhuwan Adhikari: Yes, yes.

Piran Engineer: And what was the corresponding number in January?

Tribhuwan Adhikari: Corresponding number in January was INR4,650 crores.

Piran Engineer: Okay. So it has dipped a bit from December?

Sudipto Sil: Overall, disbursement will be slightly higher because of the non-individual segment.

Piran Engineer: Okay, okay. Fair enough. And is that -- and was that still outstanding in the sense that is it still OTR, but still under moratorium?

Sudipto Sil: Yes, you're asking about the OTR. Now the entire OTR has now moved out because the OTR window is over. All loans have come out of the OTR window irrespective of whether they are -- I mean -- and the moratorium period has also ended.

Piran Engineer: Okay. So are there any loans, which are still in Stage 2 and they're servicing well and have the chance of being upgraded?

Sudipto Sil: By and large settled down. That is, by and large, settled down. Whichever loans had to be -- had to go to Stage 3 have already slipped into Stage 3 and we have seen several quarters after that. Good number of accounts have got repaid and closed as well and some of them are servicing regularly.

Piran Engineer: Okay. Let me put it this way. Are there some loans, which have a probability of being upgraded in the next 2 quarters? Because I believe OTR ended in mid-'23. And for 1 year, if it services correctly, you can upgrade.

Sudipto Sil: That is possible, that is possible. It is possible, yes.

Piran Engineer: Can you quantify or is it possible?

Sudipto Sil: I would not like to quantify at this point in time. But yes, there are possibilities that the loans might get closed also. Whether they might get closed or they might get upgraded, but 12-month cooling off period might get over.

Piran Engineer: Understood. This is very useful. Thank you, sir and all the best.

Moderator: Thank you. We have our next question from the line of Vipulkumar Shah from Sumangal Investment. Please go ahead.

Vipulkumar Shah: Sir, would you repeat the segmental NPA numbers, which you have given?

Sudipto Sil: Yes, I will just repeat. Kindly note down. As far as the individual home loan is concerned, it is 1.71%. As far as the non-housing corporate, which includes the project loans, that is 40.75%. And the non-housing individual is 6.5%. Overall, it is 4.26%.

Vipulkumar Shah: So LAP is included in which segment?

Sudipto Sil: Non-housing individual, NHI.

Vipulkumar Shah: That is 6.5%, right?

Sudipto Sil: Yes.

Vipulkumar Shah: Okay. Thank you, sir.

Moderator: Thank you. We'll take our next question from the line of Jeet from Pinpoint Asset Management. Please go ahead.

Jeet: My question is with regards to your developer book. So what is your strategy here? Can you...

Moderator: Mr. Jeet, can you use your handset mode, please?

Jeet: Hello. Is that better?

Tribhuwan Adhikari: Yes. Better, better now. Yes, go ahead, Jeet.

Jeet: Okay. Sir, my question is with regards to your developer book. What is your strategy here? Are you looking to grow the book incrementally given the real estate up cycle? Or you want to continue running it down and focus more on prime housing? That's my first question.

Tribhuwan Adhikari: There's no sort of attempt on our part to run it down. Yes, there has been contraction in the developer book, partly because of 2 big LOCs, lines of credit, customers deciding to close because of them being offered low rates of interest by other peers in -- our peers. As far as the developer book is concerned, still right now, my NPAs are at 34%. Yes, down from 42%, 43% a quarter ago. There is improvement.

But again, this year, we've decided to be cautious. We are not going in a big way or a very aggressive way with building our developer book. We would like to take it slow and steady, ensure that we do not make -- repeat the mistakes we made in the past. We have a very good -- we have at least INR4,500 crores of sanctioned book in the developer side, which is yet to be taken. That means our loans have been sanctioned, but the amounts have not been drawn, I would say, by the borrowers. So in the coming -- in this quarter, I believe some of that would come in. Some of that would come in.

But honestly, yes, we've been -- consciously, we've been very measured in sort of getting into the developer side. And the other part of it is there is a huge, huge rate war on in the market right now. Even on the developer side, there are my -- some of my peers who are offering developer loans at 8.75%, which is way, way, way too low. According to me, does not fit into my comfort margins. So yes, both taken together, a period of, as I said, a period of consolidation, looking -- being cautious, trying to improve the asset quality on the developer side. Next year, we take out the call whether -- yes, we will definitely be looking at growing the book, no doubt about that. But how aggressive we get, how much risk we are willing to take will be a call we'll take next year.

Jeet: Understood, sir. Very clear. And in terms of your NPA and written-off pool on the developer side any king of chunky recoveries that you expect.

Tribhuwan Adhikari: Yes, Jeet. There has been an improvement in the asset quality even on the developer side as well as the retail side. Yes, developer side, as I think there are some about 230, 240 big loans, which are in the NPA pool. We are doing everything we can right from conciliation to taking legal resource or taking advantage of whatever legal remedies we have.

Yes, seeing some traction on the developer book. Many of our big borrowers are right now in negotiation with us trying to settle or trying to come to a closure. We are open from our side willing to offer OTS or onetime settlements to those borrowers that the book gets closed or the loan gets updated.

So -- and plus a lot many of our sort of such loans are in the IBC and the NCLT process. Legal process naturally takes some time. Expecting some resolutions in the coming 2 months from the IBC and NCLT and expecting some resolutions to come from the negotiations we are having with the developers. So I believe, at least in the coming quarter, 10 to 12 large accounts, so say, INR100 crores, INR150 crores we expect to regularize.

Jeet: Correct, sir. Very clear. And my last question is on your prime housing book for your highest-quality customers where you generally compete with Tier 1 banks. What would be the pricing difference in terms of the yields that you charge versus Tier 1 banks. Do you match them or are there some differences?

Tribhuwan Adhikari: Jeet, to be very honest, we are a lender lending to the IHL, the individual home loan segment, right? And so far, we've been very conservative in the sense we've mostly gone into the salaried class and into the people with high CIBIL score, 700 plus, and that is where the competition comes in from banks.

And right now, the market, as it is, very, very, very competitive especially on the rate front, right? Individual home loan rates for prime borrowers is as low as 8.3%, 8.35%. It's tough. It's tough for an HFC where the cost -- where my cost of borrowing is 7.70% having to compete with a bank with probably an average cost of somewhere about 5%, 5.5%. It's tough.

But then we've got to do it. We've got to do it. So yes, this year, we are still there looking into the affordable housing segment. We've launched a product also there. Next year, we're pretty upbeat. I think the affordable segment is where we see a lot of demand coming from, where we need to be as one of the biggest housing finance companies. So looking for diversification next year.

Jeet: Got it, sir. Thank you so much.

Tribhuwan Adhikari: Just one small correction. 230, 240 loans in the builder book. NPAs are 40 to 50. 40 to 50 accounts of the builder book are in the NPA.

Jeet: Okay.

Moderator: Thank you. We have our next question from the line of Shubranshu Mishra from PhillipCapital. Please go ahead.

Shubranshu Mishra: Sir, the last part that you said, 40 to 50 accounts are in NPA. But previously you mentioned that 230, 240 accounts in Stage 3.

Tribhuwan Adhikari: No. Shubranshu, total builder loans are 230 to 240. And 40 to 50 accounts are in Stage 3.

Shubranshu Mishra: Okay, okay. And what is the total value of these 40 to 50 accounts, sir?

Tribhuwan Adhikari: I think about INR2,000-odd crores.

Sudipto Sil: INR3,000 crores, sir.

Shubranshu Mishra: Sure, sir. And if you can split which -- how many of these accounts are in IBC? How many in NCLT? How many have we invoked successfully?

Tribhuwan Adhikari: Shubhranshu, I don't have the exact figures with me right now. I don't have the exact figures with me right now.

Shubranshu Mishra: Okay, okay. Or if you can give at least a geography-wise concentration. Sir, how many in Hyderabad, how many in NCR, how many in Chennai, Mumbai?

Sudipto Sil: See, by and large, I mean, in terms of the overall real estate market also, Mumbai is the largest real estate market. So number of NPLs also in Mumbai will be the highest in terms of amount. Same is in the other cities like Bangalore and NCR. So it's difficult to give an exact number in terms of number and amount. But yes, it more or less follows the real estate pattern, largest will be in Mumbai then it will be in Bangalore and then NCR.

Shubranshu Mishra: Do we have a number, sir? How many accounts, builder accounts, NPA and MMR, Bangalore, NCR?

Tribhuwan Adhikari: No, Shubranshu. We don't have a number right now. If you can get in touch a little later, probably we can give it to you.

Shubranshu Mishra: Sure sir. Thank you so much and best of luck.

Tribhuwan Adhikari: Thank you.

Moderator: Thank you. We have our next question from the line of Prashant Kumar from Sunidhi Securities & Finance. Please go ahead.

Prashant Kumar: Yes. So sir, you have mentioned about that the HFC likely to take option to sell 10 large account to ARC. So what is -- what will be the interest income component on these accounts because it may impact abruptly interest part in coming quarter? And is it going to happen in next quarter or Q1 FY'25 because there is track record that margin was roughly that 2 or 3 good quarterly performance, margin fall abruptly. So -- and this time, there are 2 concerns. One is liquidity and other one is industry versus. So if you could give some color, sir.

Sudipto Sil: Yes. As far as the ARC is concerned, these are all accounts, which have been fully written off.

Tribhuwan Adhikari: Provided for.

Sudipto Sil: Provided for, rather. They are fully provided for. So I mean what will be the interest impact of it depends upon the kind of resolutions we are able to get in each of these accounts.

Prashant Kumar: Okay. Thank you, sir.

Sudipto Sil: Yes. But at least there will be a provision reversal that is something, which can be said certain -- with certainty.

Prashant Kumar: Okay. So it remains like how many basis points if you can give something? I mean, yes, you have mentioned that 2.8% to 3% NIM may be in next quarter. I think -- so my concern is it may fall on to more around...

Tribhuwan Adhikari: Yes, Prashant. Prashant, we are confident. We're confident of worst-case scenario, maintaining 2.8%. I think our best case scenario, as you see in the last quarter, the downtrend has just been by 4 basis points. We would be targeting anything not more than 5 to 7 basis points in this quarter. But definitely above 2.8%.

Prashant Kumar: Okay. Thank you, sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand over the call to management for closing remarks. Over to you, sir.

Tribhuwan Adhikari: Yes. Thank you. Thank you, friends. As I said, this year was largely a year of consolidation. Whatever important structural changes and technological platforms changes we've made are in place. Nothing holding us back now from delivering the kind of performance all of you expect, the investors expect. During the year, we have also been able to address areas like stability, improvement in asset quality, improved margins, which is one of the best in half a decade.

So as you've been seeing, every quarter is an improvement in some area or the other. And I'm pretty certain and confident that this trend will continue in the next quarter, Q4, and in the coming quarters, all the 4 quarters of FY'24 and '25. I extend my sincere thanks to all of you for your continued support. Thank you.

Moderator: Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thanks for joining us, and you may now disconnect your lines.