"LIC Housing Finance Limited

Q1 FY '25 Investor's Conference Call"

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MANAGEMENT: **MR. TRIBHUWAN ADHIKARI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – LIC HOUSING FINANCE LIMITED**
MR. SUDIPTO SIL – CHIEF FINANCIAL OFFICER – LIC HOUSING FINANCE LIMITED

MODERATOR: **MR. PRAVEEN AGARWAL -- AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the LIC Housing Finance Q1 FY '25 Investor's Conference Call 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 the presentation concludes. Should you need assistance during the conference call, 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, sir.

Praveen Agarwal: Thank you, Sidhanth. Welcome, everyone, to the earnings call of LIC Housing. From the management team, we have Mr. Tribhuwan Adhikari, MD and CEO; and Mr. Sudipto Sil, CFO, to discuss the results. I would request Mr. Adhikari to share his key remarks on the results, post which we'll open the floor for Q&A. Over to you, sir.

Tribhuwan Adhikari: Yes. Thank you, Praveen. Good morning to all of you and welcome to the post-earnings conference call of LIC Housing Finance Limited. As you are aware, LICHFL declared its Q1 FY '25 results last Friday.

Before I start the highlights of the Q1 results, I would like to outline the few developments in the economy, which has taken place over the last quarter. As announced in the union budget of '24-'25, the government continues to focus on the infrastructure development and affordable housing, including fresh allocations for urban housing and PMAY. The budget is expected to improve the housing demand and foster social economic growth. As far as the interest rate scenario is concerned, a gradual downtrend is expected in the current year. However, the pace of the same will depend on the incoming data and outlook of the domestic as well as the global markets.

Several developments have taken place globally, and we expect RBI's August monetary policy statement to provide good amounts of clarity on the way forward. Now I would like to share the key financial highlights of the quarter. Total revenue from operations was INR6,783.67 crores as against INR6,746.51 crores for the corresponding quarter of the previous year, there was a marginal increase. Outstanding loan portfolio stood at INR288,665 crores as against INR276,440 crores as on 30th of June '23, reflecting a growth of 4% Q-on-Q -- sorry, Y-o-Y, out of which the individual home loan portfolio rose to -- stood at INR246,275 crores as against INR231,087 crores, up by 7%. And this IHL or the individual home loan portfolio comprises 85% of the total portfolio.

Total disbursements for the quarter were INR12,915 crores as against INR10,856 crores, up by 19%. Out of that, disbursements in the individual home loans were at INR10,932 crores, as against INR9,419 crores, up by 16%. Disbursement in the project loans were INR521 crores against INR251 crores for the same period previous year, up by 108%. We have seen disbursements pick up gradually during the first quarter and this has continued in the early weeks of the second quarter as well.

Net interest income stood at INR1,989.08 crores as against INR2,209.44 crores for Q1 of FY '24. And INR2,237.60 crores for Q4 of FY '24. There is a Q-on-Q decline in NII, partially due to lower collections from NPA accounts in Q1 of FY '25 as against a collection of approximately INR230 crores from NPA accounts in Q4 FY '24, which included some one-offs, INR90 crores only was collected in Q1 of FY '25.

Also, interest expenses increased by about INR100 crores as compared to Q4 of FY '24, due to increase in the average liabilities from Q4 of FY '24 to Q1 of FY '25. Net interest margins for Q1 FY '25 stood at 2.76% as against 3.21% for Q1 of FY '24 and 3.15% for Q4 of FY '24.

Profit before tax for the quarter was at INR1,628.43 crores as against INR1648.99 crores in Q1 of FY '24 and INR1,476.18 crores for Q4 FY '24. Profit after tax for the quarter stood at INR1,300.21 crores as against INR1,323.66 crores for the same period of the previous year, and INR1090.82 crores for Q4 of FY '24, thereby a growth of 19% over Q4 of FY '24.

In terms of asset quality, Stage 3 exposure at default as on June 30, 2024, stood at 3.30% as against 4.96% as on June 30, '23. Total provisions as on 30th June '24, stood at INR5,670 crores, reflecting a provision coverage of approximately 50% and as against 42% as on 30 June, '23 and 51% as on Q4 of FY '24. A technical write-off of INR736.91 crores has been made in the quarter.

On the funding side, our cost of funds remains at 7.76%, same as the number as on 31st of March '24, despite the elevated deals in the market during Q1. Our incremental cost of funds stood at 7.82% for Q1 of FY '25, slightly lower than Q4 of FY '24. With this brief introduction, I would like to invite you for your queries. Thank you.

Moderator: Thank you very much. The first question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Three questions. Questions on margins. Sir, I mean, while we have already disclosed in the presentation that the recoveries were lower from NPA accounts Q-on-Q. I mean, just wanted to say that, I mean, if these things can be disclosed, I mean, in the quarter itself, right, would help all of us. So that was one suggestion that I had. But more importantly, given that you're now working on asset quality resolutions, how should we kind of look at margins in the context that the recoveries actually tend to make it very volatile? That is the first question that I had.

The second one was on growth. Sir, you remember, I mean, at the beginning of this year, you had guided for a double-digit loan growth, which I'm assuming was 10% kind of a growing growth versus that, the delivery in 1Q kind of leaves a lot to be desired. So I mean, how are we now kind of going to get to that 10% growth in this year?

And lastly, sir, when it comes to asset quality and more particularly the provisioning cover that you have maintained on Stage 1 and Stage 2. Again, a very sharp decline that we are seeing in your Stage 1 and Stage 2 provision cover while I understand that a lot of these things come from the ECL model under IND AS. But I mean, if you can just explain what kind of leads to this volatility in the provisioning cover? So those are my three questions.

Tribhuwan Adhikari: Yes, Abhijit. Yes, thank you. I've noted all the three questions. I'll come to the growth part of it first. Yes, at the beginning of the year, we had given a guidance of a double-digit growth in the portfolio. And at the end of the first quarter, we are at around about 4%. Agreed, this is not what I would say the markets would expect or even we expected. We expected a slightly higher growth.

But if we look at our disbursement, we have done pretty well in our disbursements, our growth in disbursement is about almost 19% in Q1. The reason why probably your portfolio growth has not, I would say, reflected in this is because of an average -- our basic assessment is about 4% of our portfolio is a natural wear and tear or a natural erosion in the portfolio because of prepayments and repayments.

So approximately about what INR11,000 crores to INR12,000 crores every quarter is what goes off our books. And rewriting pressure is still there, though it has subsided -- though it has subsided, but there is still a lot of rewriting pressure, especially our -- the higher ROI loans are being rewritten at quite a faster rate as compared to what we were expecting.

So growth right now, yes, slightly muted at 4%, basically where we were at the end of the financial year last year. What we expect because our -- we see a good growth coming up in both our retail and our project finance books. This -- in Q1, it is 19%, and we are witnessing a slightly better growth in the early part of July. So we expect this to pick up. And coming forward, we are also having a relook at our rewriting rates and our overall rate of interest we're having a relook at it. Probably we will be coming out with rework rates in the near future. So maybe that will also help coming -- bring down the prepayment and -- the prepayment and repayment and rewriting also. So all these put together, we expect that, yes, we are still maintaining our guidance of double-digit portfolio growth for the year.

As far as margins are concerned, yes, the margins have been down 2.76% at the end of this quarter, down from 3.15%, slightly lower than what we were expecting. But yes, we have given a guidance in the beginning of the year, if you recollect, we have given a guidance of anywhere between 2.7 to 2.9, and we are very confident of maintaining those margin guidance, what we have given.

Yes, a bit of the fall in the margins was because of the one-off NPA collections, which we had in Q4, as you all know, Q4 is normally a very productive year. And a lot of effort does go into, already, recoveries and other parts of it. So as I said in my opening statement, against that approximate collection of around about INR230 crores from NPA accounts in Q4, we've only been able to get in INR90 crores in Q1 of FY '25. So this was one of the reasons for the compression of the net interest income and also the margins.

Margins partly also because of last year, if you remember, we had technological issues in the -- at least the first half of the year. So we were slightly aggressive with our rates of interest or we offer very low rates of interest in the market, to keep up our disbursement growth. So maybe an impact of that was in that as well. But I think we have hit the rock bottom 2.76%, I think this is the bottom which we have hit. I don't think we're going to go any lower than this. And I expect margins in the coming quarters to strengthen, to be better off than what they are at the end of this quarter.

And what was the third? What was the third?

Sudipto Sil: Yes. In terms of ECL, I will say. Yes, ECL. Abhijit, ECL, we had a query why there is a lower provisioning in the ECL. Actually, if you look at the ECL model and you're referring to, especially the Stage 2 and Stage 1. So Stage 2, there have been upgrades to Stage 1 and some, obviously, movements to Stage 3 as well. But wherever -- if you compare the Stage 1, then Stage 1 provisioning was around 24 basis points as of March, which has become 18 or 19 basis points in June quarter.

Now actually, if you look at the way the provisioning is done vis-a-vis the ECL, one is the PD, LGD formula, which gives you the basic output. Secondly is also some of the accounts which have been upgraded, which have been upgraded from Stage 2 to Stage 1 in March itself, as a practice it is retained, though there is an upgrade in the account movement, the provision is retained at the Stage 2 levels, for a curation period of a quarter.

And when that gets over and the loan account continues to be in Stage 1, that particular provisioning is removed from the global pool. So about INR2,000 crores of such assets, which were already upgraded in the month of March, we were holding some provisions, which was to the tune of around INR121 crores, which was pertaining to the Stage 2 level of provisioning. Once the curation period of it has been removed, it has been reversed.

I hope I'm able to explain this.

Abhijit Tibrewal: Yes, sir. And sir, lastly, if you can just share the Stage 3 numbers across this board.

Sudipto Sil: I will do that, before that just one more small point regarding the one-off, I think, in the previous call also, I probably would have indicated that there is a one-off from a project recovery. If we are able to -- I'm able to recollect correctly, probably that was mentioned anyway, but we will take care in the future about this matter.

Stage 3 for the IHL individual home loans is 1.38% as of 30th of June. Stage 3 for the non-housing individual, which is basically the individual loan against property and some similar products, non-housing individual is 5.39%, and for the NHC plus project, nonhousing commercial and project put together, the Stage 3 number is 33.06%. Total Stage 3 for the -- in all 3 pieces of assets put together 3.30%.

Moderator: The next question is from the line of Avinash from Emkay Global.

Avinash: A few questions. The first one, again, a bit on the growth and margin. So you alluded to the fact that your margin also had some impact of the aggressive interest rate last year. Now the thing is that, yes, if I look across the segments, individual housing, individual LAP, or on project finance, your rates are very, very competitive. And yet you are -- for growth, you alluded to the fact that they were kind of elevated repayments. So my question here is that, okay, how are you going to balance this? I mean, even with this kind of competitive rate, your repayments are kind of -- is leading to a fact that, okay, your growth is muted.

So if you are going to again change growth, the margin will further come under pressure or if you are going to focus on margins, then again, repayment can go up. So that is where the thing is that your rates looks very, very competitive, in the segment you operate? And particularly, if I look at the GS3 numbers, like 1.3%, I think, in individual housing, 5% plus for individual LAP. For that, your rate was very attractive.

So I mean, how are you looking -- I mean, you answered quite a sort of a comprehensively your question, but still I'm confused that how is this margin growth balance thing is going to happen? If you focus on margin by increasing your yields, then you will see higher repayments. And if you are focusing on growth, then again, margin is going to be under pressure. So that's the first question.

Tribhuwan Adhikari: Yes. Avinash. Yes, I get what you're trying to say. Yes, you're talking about growth and margins together. Yes. I'll address the margin part of it. As far as margins are concerned, if you look at our book, 85% of our book is IHL, right, individual home loans. Individual home loans, the kind of segment we are catering to at LICHFL is mostly salaried with excellent CIBIL scores. So this is a very, I would say, cream -- sort of a creamy layer or the cream of the market. And naturally, here, we're seeing a lot of competition from banks, especially banks. And then we need to be competitive to sort of get this segment on the book.

Avinash: But sir, if we look at the asset quality in the individual loan housing, that LAP. Again, there also your LAP is a bit different than markets are mostly into salaried LAP. But the 5% -- the 5% GS3, they does not suggest, I mean, they suggest that kind of adverse selection or the rates are not adequate. So what are you doing to address this part? I mean you're at a 5% GS3 ratios, definitely, this is not best of the portfolio and particularly at the ease you are offering. So what is your strategy on this individual non-housing?

Moderator: Sorry to interrupt, sir. The line for the management seems to be disconnected. Please stay connected while we connect the management back.

Tribhuwan Adhikari: Yes. Hello. Avinash are you there?

Avinash: Yes. So my follow-up question was more on individual non-housing card. Because, I mean, as you explained for the housing part. But if I look at your individual non-housing or LAP, there also you are mostly into the salaried LAP. And yet the GS3 ratio is 5-odd percent. Now for that kind of a GS3 ratio, your yields, again, looks on the lower side. So now what is your strategy on this book? I mean, because this does not seem to be based on the customer, definitely, there is some adverse risk selection. And for that, you are not pricing it right. So what is the strategy on individual loan housing, sir?

Tribhuwan Adhikari: Avinash, if we talk about our LAP, so whatever you see in Stage 3, yes, the percentage of LAP in Stage 3 is pretty high. But this is mostly legacy. This is mostly legacy, right? There was certain phase in our business operations where we were very aggressive on the non-housing part. And yes, we took some wrong decisions, let me say that. But of late, if you look at the last 4 years, specifically, I think we are pretty comfortable with what we have done in LAP, of course, the volumes have not been very high, largely because of the bad experience of the past.

Whatever LAP we have sold, we are pretty comfortable with that. There are not too many NPAs on that. So I would not say that we are not going to do LAP or we're not going to get into the LAP business. We'll definitely get in there. And putting the learnings we've made from the past, we're not make the same mistakes again.

And yes, the non-housing loans, I would say, not the housing loans, which are not are the part of IHL, what we call the OHL, other home loans. They are definitely more margin producing as compared to my IHL. So that is one area we are targeting, as we said this year, we are looking for, at least last year, we were -- we had a share of about 12.5%, 13% from our other housing loan segment. This year, we're looking to increase it to about 20%. So once if we can get an additional 7% from these other housing loans, definitely, it will give me a boost to my margins.

Moderator: The next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: So on these collections from NPA account, you have indicated a number of INR230 crores for 4Q. But if you can just help with respect to the full year, and what's the normalized levels of these collections, which are expected? And will it continue at INR90 crores, could it be lower than that and again have some volatility in margins. How should we look at it? Because last 3 quarters' margins have been over 3-odd percent, yes.

Sudipto Sil: See, yes, actually, if you look at the collections from NPA every quarter, we do get some collections from NPA. But as I mentioned in the, I think, in the Q4, there were some one-offs, which was around lumpy, about, say, INR70 crores to INR80 crores, which was then in a particular project account where we also got the interest income to that extent, certainly, it is a one-off.

Otherwise, also, there has been a decline in the NPA collection -- interest income collection from the NPA because generally in Q1, there is a slight depression in that particular item. So the collection efficiency in Q1 for the NPA accounts have also come down, which has resulted in this drop from INR240 crores to INR90 crores or INR230 crores to INR90 crores. Otherwise, if you see the other earlier quarters, apart from the first quarter, generally, the collection from there is not this. No.

Kunal Shah: Yes. So if we look at it last Q2 and Q3, how much was that amount, yes? So that would help maybe just for comparison purpose when it comes to our next 2 quarters?

Sudipto Sil: Put together, you can say that out of this INR230 crores or INR240 crores , whatever was the collection in the second quarter -the fourth quarter, the INR70 crores to INR80 crores for project is certainly a one-off. Otherwise, the collections in this quarter has dropped by another, say, INR40 crores to INR50 crores in the first quarter. So roughly around say INR130 crores to INR140 crores you can say is a steady state.

Kunal Shah: And that we should expect over next 2 quarters to repeat?

Sudipto Sil: Yes. So INR90 crores generally -- I mean, INR90 crores is the gap.

Kunal Shah: Okay. And within this, there are no accounts wherein there is some kind of a stress, and that's the reason we didn't get the collection in this quarter and it might not continue even for next 2 quarters?

Sudipto Sil: Collections overall has dipped. Collections overall has dipped in the first quarter.

Kunal Shah: Okay. Okay. Okay. Got it.

Tribhuwan Adhikari: Just to add. Just to add, Q1 is slightly -- we are slightly slow of the blocks, right? It's natural after a hectic Q4 and plus we -- these companies that are be, such that, Q1 is our promotions and transfer season, so a lot of movement of personnel here and there. So there is some disruption in terms of continuity. And plus this year, if you think a heat wave and the elections and all that, did have an effect. So overall, the collection efficiency for Q1 was slightly lower than what it was -- what it is normally. So probably it had an impact on the margins.

Kunal Shah: Yes, yes. Now, sir, just wanted to get the sense in terms of the riskiness that this might -- whether this will repeat in Q2 and Q3 or no? So whether it will be like normalized to 1.3 to 1.5 -- Yes, INR130 crores to INR150 crores or maybe we should still go with INR90 crores kind of an expectation?

Sudipto Sil: Fourth quarter is always the highest in terms of collections. Always.

Kunal Shah: Yes. Okay.

Tribhuwan Adhikari: You can expect about INR150 crores per quarter, year and on.

Kunal Shah: Per quarter over next 2 quarters. Okay. Okay. And secondly, maybe you indicated in terms of why there was a release, say, from GS1. But when we look at GS2, then obviously something has gone into GS1 as well. But was there like a management overlay has got released, which was created last time? What was the reason for INR300-odd crores release in GS2? Yes?

Sudipto Sil: I will explain this also. See, actually, when the write-offs happen, there are two things, which, one, is write-off and the other one is upgrades. Whenever write-offs happen across the board, the Stage 3 account-related management overly gets released. Then there are some accounts which gets upgraded from Stage 2 to Stage 1. So obviously, there will be a reduction in the PDLGD. And whatever accounts have actually moved from Stage 2 to Stage 3, the entire provisioning moves from -- moves out from that bucket. So you have to actually compare what is the stock of the amount outstanding in Stage 2 in totality.

Kunal Shah: Yes. So maybe overall coverage being less than 4%, would it be like less than 4% now? Or maybe we should expect it to get towards 6-odd percent again?

Sudipto Sil: It actually -- for Stage 2 accounts, I will just share with you the movement between March and June. Between March and June, there is a INR300 crores INR350 crores reduction in the overall EAD, that is the Exposure at Default for the Stage 2 accounts. Part of which has moved to Stage 2 -- from Stage 2 to Stage 3 and some upgrades from Stage 2 to Stage 1. Generally, if you look at it, the focus is on maintaining an overall PCR of around 50% on the Stage 3 accounts. And in overall provisioning, if you look at the Stage 1, that Stage 1, by and large, should remain in the band of around 18% to 20% or there are most maybe a percentage -- basis point up or down from that level. That has been a consistent number for the last several quarters.

And Stage 3 overall has remained around 50%, and we will strive to maintain maybe right now, it is a little less than 50%, but it will remain around 50%. Overall provisioning, that is the provisioning to the entire EAD, that also is one statistic that we monitor, that remains around 2%.

Kunal Shah: Yes. So now which is slightly down. Okay. So we will try to create it towards 2-odd percent?

Sudipto Sil: 1.92% to 1.97%. It's very close 2%.

Moderator: next question comes from the line of Piran Engineer from CLSA.

Piran Engineer: Just a couple of questions. Firstly, what percentage of our bank borrowings are EBLR linked?

Sudipto Sil: Yes. See, our bank borrowings of the total book is about 34%. Out of 34%, almost the -- which is coming to say roughly around INR80,000 crores -- INR82,000 crores. Out of that, about INR40,000 crores is linked with external benchmark. Then about INR25,000odd crores is linked to the repo rates and about INR17,000 crores is linked to bank MCLR rates.

Piran Engineer: Okay. Okay. Got it. So nothing is fixed in this? Like short-term fixed?

Sudipto Sil: No, there is no fixed. It is all floating linked to various benchmarks as I just described.

Piran Engineer: Got it. And just secondly, getting back to the earlier question, I'm a bit confused on your strategy between margins and growth. So will we lower our home loan rates to spur growth? Or will we increase our home loan rates to improve margins? There's a bit of confusion around that?

Tribhuwan Adhikari: No, definitely, no, no. Lowering is out of the question, lowering of, I think, as I've said, we are more than competitive and I think whereas we need to be competitive in the certain segments or -- but we also need to look at margins, I think. So basically, what we are looking at, just if I give you an example, our rates are basically cibil based, right? So we have -- for example, if I talk about IHL, we have a big slab from, say, 750 to 800. So all people in the 750 to 800 bucket are being priced at the same rate. So what we are looking at probably is have smaller baskets of, say, 750 to 775 and then 775 to 800 so that we price them better. And I think that is not going to impact my, sort of, business growth significantly. But at the same time, it's going to give me a little bit of better margins than what I'm doing.

And then we are also looking at segment-wise repricing of our portfolio. In the sense, as I said, sort of trying to go into the selfemployed segment a little bit more. This is one segment, we've not been very focused on. We've mostly been into the salary plus. So looking at --Yes, what I'm saying basically, risk-based pricing is being revisited. We are trying to price our products based on the risk of the borrower. So I don't think it's going to have any significant impact on our business growth story, but I think it will give us some comfort to our margins.

Piran Engineer: Got it. And sir, you are mentioning that other housing loans is 12%, 13%, you'll take it to 20%. This is -- you're referring to LAP and all? If you could just reiterate that?

Tribhuwan Adhikari: Yes. Basically, all products other than individual home loans. So it could be -- yes, it does include LAP. It does include LAP.

Piran Engineer: Okay. So home loan share comes down from 85% to 80%?

Tribhuwan Adhikari: Yes. Yes, approximately. Approximately.

Sudipto Sil: Yes, actually, if you look at it just a few years back also, the builder loan share was more than 5% -- 5% to 6%. Last 3 years, there has been a decline year-on-year. In fact, year-on-year, there is a decline of almost 26%, 27% on the portfolio, and it has not increased significantly. There has been -- I can say that bottoming out has happened between December and I mean, March and June. But it has not be added significantly to give us a margin benefit. And overall, the builder share has come down to around 2% or something of the total book now.

Moderator: The next question is from the line of Raghav Garg from AMBIT Capital.

Raghav Garg: Sir, most of my questions have been answered. I just wanted one clarification. You had mentioned that there was about INR230 crores of NPA recovery in 4Q. And out of that, I think about INR90-100 crores was a one-off. So is it fair to assume that the 130, 140 a steady state run rate for you in terms of recovery of the quarter from the retail pool?

Sudipto Sil: Yes. Actually, we -- I mean, I'll go through the numbers once again. See, out of the builder segment, builder segment, the INR90 crores that we recovered has come down to about INR10 crores. So that included about INR70 crores to INR80 crores of a one-off. So that one-off is particularly pertaining to maybe one or two accounts, that is certainly not going to replicate. So that is one thing which is very clear.

Even in the fourth quarter, which I, again, explained and again, I'm explaining. Q4 numbers in terms of collection are always the seasonally the highest. So whatever numbers have happened, removing the builder segment on the retail book, that particular number is always the highest in the fourth quarter, which comes down in the first quarter. This time, it has come down a little bit more than normally it should.

Raghav Garg: Understood, sir. But if we adjust -- if we look at the adjusted net interest margin, adjusted for INR230 crores last quarter, INR90 crores for this quarter, there is still about 20 basis points decline in the margins in the quarter.

Sudipto Sil: It is -- you are looking at only the interest income part. Interest expense has also increased by about INR100 crores because between Q4 of last year and Q1 of this current year, the average liabilities have increased by about INR4,300 crores. If you take the December liabilities, March liability, take the average, and again, the March and the June and take an average, the liabilities that we serviced in Q4 vis-a-vis the liability serviced in Q1 has increased by about INR4,000 crores. That INR4,000 crores at a rate of around 7.8% rate of interest roughly works out to be around INR80 crores for the quarter. So that also has added to the margin gap, NII gap.

Raghav Garg: Cost of funds is still flat 7.6%

Sudipto Sil: That is flat between March and June. But between December and March, it had increased. If you see in December, my weighted average cost of fund and March when the weighted average cost of fund, the gap is almost 4 to 5 basis points. So initial part of Q4 was at a lower rate of interest, which spiked. During March because of a lot of liquidity pressures and a lot of state government borrowings, et cetera, which have happened. Thereafter, if you see between March and June, we have been able to keep it absolutely steady at 7.76%.

Now after June, we have seen a little bit of remission on the money market benchmarks like treasury bills, which has come down by about 16, 17 basis points in the month of July itself, from 1st July to say about 31st of July. And probably if the rate of interest that decline continues, then a little bit more improvement, we will get on the T-bill with which there is a significant portion of our liabilities linked. So there will be some improvement.

Otherwise, also, if you see on a comparative basis for incremental cost of funds, the 7.84, which was the run rate for the March quarter has come down by about a couple of basis points in the first quarter itself.

Raghav Garg: Understood. Sir, just one last question. This improvement in Stage 2 that you are referring to, is there any color in terms of some specific products? Or is it broad-based say there would be?

Sudipto Sil: No. This is basically retail side. It is retail side, it is not builder side.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from PhillipCapital.

Shubhranshu Mishra: I have one question, which is around margins, I'm sorry to belabor on it. Given the fact that our non-housing, which is developer plus the non-housing individual/ corporate used to be roughly on 23%, 24% around 3, 4 years ago versus around 13%, 14%. The -these buildings were actually margin accretive versus the salaried home loans, which is fairly competitive and take at least 4, 5 years to break even.

So when we are targeting a 10% growth, are we talking about more of home loans than developer and non-housing individual or corporate or vice versa? Because then a little bit slightly difficult to hold on to the margin guidance. That's the first question. Second is just a data point. You did give the Stage 3 numbers for each of the asset classes. And is it possible to give the PCR on each of the stage 3?

Tribhuwan Adhikari: Okay. Coming to your first question first regarding the margin. Yes, the strategy is very clear. As I said, 85% of our lending is to individual home loan customers, which, again, you rightly alluded, this is a very competitive market does not give me any comfort as far as margins are concerned. So this year, as I said, we are trying to diversify from the individual home loan to what we call the other home loans. The other home loans is a mix of lending to corporates, lending to individuals for commercial and other activities and of course, the builder book. Right?

As far as the builder book is concerned, in the first quarter, we've shown a pretty good growth. We have disbursed about INR521 crores against INR251 crores last year, up by 108%. So the builder book is, yes, definitely, we're looking at growing our builder book, because it is from a margin perspective, it is much more comforting than the individual home loan segment.

Yes, we are looking at growing our other home loan segment from roughly 12.5% of our book of our disbursements last year to about 20%. So about 7% to 8% increase. And naturally, if that is the increase in the non-home loans or the other home loans. The home loan segment or the individual home loan segment is expected to go down slightly to somewhere around about 80%, 81% from the current 85%. Does that satisfy you?

Shubhranshu Mishra: Correct, sir. And just one observation here, sir, that though we are talking about a non-housing which includes the project loans and non-housing commercial and individuals. But when we look at the peak number in terms of Stage 3 for project loans, it was at around 45%, implying that almost 50% of the book was bad. So how do we comfort the investors so that this time on, we would build a much better book?

Tribhuwan Adhikari: Yes. As I said, look here. If I look at my builder loans or the wholesale book, and if I look at the Stage 3 there, I've said it before, this has been a particular phase in our journey. And let me be very specific, a phase between 2016 to 2019, wherein, let me say, more than what, 60%, 65% of what we disbursed went into the NPA account bucket, right? But hopefully, if I look at the last 5 years, of course, there have not been too much of a disbursement in the builder book partly to do with our experience of the past. But whatever we've disbursed, we are very comfortable with the NPAs there.

So I think, we've learned a lesson. We've learned a lesson from the past and what we are doing now or what we propose to do in the current year is be very, very cautious, pick on the good builders, builders with a good track record and then lend to them. And not me to repeat the mistakes we made in the past. And our monitoring aspect, which is almost not there in the past, we have built a monitoring team -- a strong monitoring team. So I think that will help us in sort of ensuring that we do not repeat what the mistakes what we have made in the past or a particular period of our journey in between '16 and '19.

Shubhranshu Mishra: Understood, sir. And the data point, sir, the PCR on each of the Stage 2.

Sudipto Sil: The PCR on the IHL and the NHI put together will be around 37%, 38%. And on the NHC project put together, it is 61% -- 60%.

Shubhranshu Mishra: Just one last question, sir. So 60% PCR on NHC and project loan would mean as much of LGD, right?

Sudipto Sil: Sorry?

Shubhranshu Mishra: So 60% PCR on NHC and project loan would mean as much of LGD, 60% LGD on project loan and NHC put together.

Sudipto Sil: Not necessarily. See, there is a combination of various things. Provisioning is one thing, see, and LGD is a different output. Because the value of security, et cetera, all these things comes to play. And mind you, this is considering the management overlay as well. So out of INR5,270 crores, INR5,670 crores of the total provision, almost INR1,770 crores is the management overlay. So management overlay is over and above whatever is the PD LGD calculation coming for.

Shubhranshu Mishra: But can you repeat the management overlay, of INR1,700 crores?

Sudipto Sil: So roughly about the total provision, 30% is the management overlay.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: Two questions from my side. First is, if you could give some color on the loan sanctions that have happened this quarter, is the growth rate similar to loan disbursements? Just give us a sense in terms of the way momentum is heading? The second is on competitive intensity that you have seen in the last 3 months in the retail home loan business, whether it has increased or decreased? And sorry, one more question is, how is the incremental cost of funds trending or expected to trend in the next 1 or 2 quarters?

Sudipto Sil: I will take the last question first regarding the incremental cost of fund. We have seen improvement in liquidity in Q1 itself. And though the rates were sticky because the banks continue to increase the deposit rates. Now with whatever you have seen happening in the global markets and the last 1 or 2 days of sharp decline in the yields certainly we are well as far as the cost of fund is concerned, even without any policy intervention. Liquidity has improved quite a bit. Of course, depending upon the outflows on the equities market, we cannot say what it is going to be for the next couple of days. Overall, if you ask the trending lower, we are expecting improvement on the overall cost of funds.

Incrementally, cost of funds will trend down. Whatever borrowings we have with the floating rent benchmarks will also trend down. We are already seeing about 16, 17 basis points decline in the treasury bills. About INR8,000 -- about INR7,500 crores of liabilities will get replaced in this particular quarter because of the exits. And those were contracted at upside of 8%. Today, we'll be able to replace that amount of money very comfortably in the range of 7.7-7.60 or thereabouts. So there are a little bit of catch up or a little bit of space we will get there as well.

Tribhuwan Adhikari: Yes, coming to -- Nischint, coming to your first part of the question. Yes, the sanctions, the disbursements were INR12,915 crores, which were up by 19%, as compared to last -- the first quarter of last year. Sanctions were better off. Sanctions were up by 30%. The total sanctions in Q1 were INR15,180 crores, out of which we disbursed INR12,915 crores, almost, you can say, INR13,000 crores. So we do have a buffer of about INR2,200 crores, which carries forward to Q2 of this year and which would probably be disbursed.

Nischint Chawathe: 30% is in the individual business or it includes all the businesses?

Tribhuwan Adhikari: No, this is individual retail. This is individual retail.

Nischint Chawathe: Sure. And maybe commentary on the competitive intensity in the last 3 months, whether it's increased or decreased?

Tribhuwan Adhikari: Intensity continues to remain the same, especially in the retail segment, the intensity is the same. As I said, the kind of segment we are catering to the salaried class, the high-CIBIL score class, intensity remains the same. Yes, banks have increased their rates slightly 10, 15 basis points. But again, the intensity is there. Banks also continue to be aggressive, continue to be aggressive and we are also -- yes, we are trying to be competitive. But then again, we are also trying to diversify our product segment so that we move into slightly higher yielding products.

Nischint Chawathe: So this is helpful. But just one follow-up for Sudipto. Sudipto, you're not hearing any of the banks kind of saying that they have had fairly large NBFC exposures and there is some pressure on them to sort of reduce the NBFC exposure or that kind of in turn translating into a higher cost of funding for you?

Sudipto Sil: No, no, no. On the contrary, we have got fresh sanctions with Q1 itself. We get, you know of almost INR5,000 crores from one bank another couple of banks put together about INR7,500 crores of fresh term loan sanctions we have received from the banks. And some more banks have already lined up their term loan proposals for us, which will come in this quarter and third quarter.

Moderator: The next question is from the line of Jigar Jani from B&K Securities.

Jigar Jani: Just one clarification, is 20% book movement to non-individual? This will be on -- you're talking on disbursement for FY '26 or for the entire book, you might see it? And what is the time frame in that we're looking at?

Tribhuwan Adhikari: No, Jigar, we're talking of disbursement FY '26. We were -- at FY '25, we were at around about 13%, roughly around 13%. We are looking at increasing it to 20%, a 7% increase.

Jigar Jani: Right. So FY '24 to '25, you will be 13% to 20% in terms of disbursement.

Tribhuwan Adhikari: Yes. Yes. Yes.

Jigar Jani: And sir, on the fact that we are looking at maintaining our guidance at double-digit growth at 10%, should that intense even on a normalized prepayment rate of, say, 15%, 16% that is a significant growth or run rate required from the disbursement side? So is it fair to assume that even if you are looking more bulky project loans in terms of disbursement in 9 months, given that our strategy is also more towards on individual and builder loans count to attain that divestment target? And if you can give some sense on what disbursements are we targeting for FY '25?

Moderator: Sorry, Mr. Jigar, the line for the management seems to be disconnected. Please stay connected, I'll reconnect the management. .

Tribhuwan Adhikari: Jigar, are you there?

Jigar Jani: Yes, sir, could you hear my question?

Tribhuwan Adhikari: Yes. Yes, I can hear you. And you can just carry on.

Jigar Jani: Yes. So I was asking on the disbursement side, any specific disbursement target for the full year for FY '25. And secondly, even when you look run rate required to at least say a double-digit AUM growth, the run rate required for disbursement seems pretty high for the next 3 quarters. And given that our strategy is going more towards non-individual side, would it be fair to assume that it will be more towards builder loans, which should be higher ticket size and therefore allow you to hit that kind of higher disbursement and loan growth for the current year?

Tribhuwan Adhikari: Yes, Jigar, it will be a bit of both. As we said, we are categorizing in this as other home loans, right? We are basically segregating our book into two parts. One is the individual home loans, which we give to individual borrowers and the other is to corporate, individual borrowers as well, and of course, builder loans. So it's going to be a mix of both.

Yes, as far as the builder book is concerned, yes, we do expect some big disbursements because as I said, going by our past track record, we have been on the wrong side of the line, I would say. So we are being cautious here. We are targeting big builders, builders with a lot of credibility, good credit record and other things. So we'll be targeting big builders and looking into the construction market right now, I believe a whole lot of projects coming up. So all big builders, the best of the builders will be looking for funding. And I'm sure we'll be able to meet their requirements. So definitely, some big loans would be coming from -- coming into our builder books. So that also would help me in my double-digit book growth, which I'm looking at.

Jigar Jani: And any targets on business, any growth rate targets on business?

Tribhuwan Adhikari: Yes. Last year, we did about INR60,000 crores. This year, we're targeting about INR75,000 crores.

Moderator: The next question is from the line of Kashmira from ACKO Life Insurance Limited.

Kashmira: As per the 37% decline that you see in the deposits, I was wondering what could be the reason behind the sequentially declining deposit? The second question would be on particularly the weighted average cost of borrowing. From banks and NCD, we have a spread of about 24 bps. Now is there any particular reason for such a high spread? And also, how is the WACC for banks at just 7.9 months or as any particular updates on these? And third question would be around what the credit cost for us this quarter, specifically, If any guidance on that?

Sudipto Sil: Yes. As far as credit cost is concerned, this quarter, the credit cost is about 19 basis points. So overall, we expect that this year, we should be in the range of around 25 to 30 basis points, which is much lower than the credit cost for last financial year. As far as your other query was regarding the reduction in deposits, yes, we have seen some deposits getting redeemed. But -- and the reason is precisely because of the fact that the banks have been very aggressive in raising deposits, and we have not changed the rates. We have not changed the rates for quite several quarters now. Despite the fact that the banks have been increasing their deposit rates. But incrementally, the inflow is quite good in terms of fresh deposits, especially in the retail segment.

The other part is pertaining to the -- you said the gap between the bank and the NCD. The NCDs are historical. You have to understand that rates which were there earlier, probably were lower than what it is today, 5, 7 years back. So this is a weighted average. Banks being mostly on the -- I would say entirely on the floating reflects the current cost.

Kashmira: All right. And any particular reason why the banks WACC is like so low, that we are able to like get the bank borrowing at a very lower cost?

Sudipto Sil: So we actually -- as I mentioned, we have contracted with a repo-based link borrowing rate as well as the EBLR rates. The external benchmarks have been coming down off late. Even in first quarter, we have seen a slight decline. Second quarter, the decline is much bigger. And we have always been able to negotiate with the banks for the best rates because of our AAA rating and obviously, the LICHFL brand, LIC brand helps. So overall, we have been able to raise it at more competitive levels.

Moderator: The next question is from the line of Gaurav Jani from Prabhudas Liladher.

Gaurav Jani: Sir, just one clarification. In the presentation, the yield and advances number of 9.8% for the quarter, does that include the recoveries impact that you mentioned, the INR90 crores and the INR220 crores or INR230 crores last quarter?

Sudipto Sil: This yield actually the way it is presented is the reported yields. That is the yield on the entire pool of assets on the closing day of the quarter. This is not taken into consideration the collections, because interest -- that is reflected by the interest income and the net interest income computations. This yield is basically the weighted average yield or the entire pool of advances on the reporting day of the quarter, that is the last day of the quarter.

Gaurav Jani: Sure. Can you just provide the same number for the last quarter?

Sudipto Sil: It is mentioned during the presentation itself.

Gaurav Jani: So that's actually given for FY '24, so just sort of taken for Q4 of '24.

Sudipto Sil: Yes, Q4 of '24, this is the year-end, so the entire pool of assets on the last day of the quarter, that is the yield which is reported there. There is nothing for the quarter. It is, of course, on an as on date because it's a balance sheet figure. It's not a P&L figure.

Moderator: The next question comes from the line of Tejas Shah, who is an individual Investor.

Tejas Shah: Good set of numbers. I just wanted to understand what is the provision coverage ratio that we are running? And reality being doing so well, why can't we grow much larger than the other industry peers?

Tribhuwan Adhikari: Well, overall, Stage 3 PCR is at -- what is it?

Sudipto Sil: Just around 50%. So 49.72%.

Tribhuwan Adhikari: 49.72% to be precise. So around about -- around about 50%, which we've been trying to maintain since Q4 of last year. And as regards to growth, yes, Mr. Shah, this is something which we do understand is slightly not up to the mark. Yes, we are all -- the entire company is working towards that. We have in our guidance given that we are targeting a double-digit growth in the current financial year. Q1, we've come in at 4%, slightly muted. I do agree. But then yes, we are working on it, and I'm sure by the end of the financial year we will be closer to the guided figure of double-digit growth.

Moderator: The next question is from the line of Raghav Garg from AMBIT Capital.

Raghav Garg: Just one more question. Your write-offs this quarter, INR775 crores. Do you anticipate taking any further write-offs during the year?

Tribhuwan Adhikari: Yes, Raghav, there could be a few write-offs. There could be a few write-offs -- a few more write-offs in Q2, Q3.

Raghav Garg: To what extent?

Tribhuwan Adhikari: I think around about further write-off around about INR400 crores to INR500 crores.

Raghav Garg: Okay. And you -- a couple of quarters ago, you had also spoken about the NCLT recoveries, which you were awaiting because -- I mean, but which haven't come through because of procedural delays. Any visibility on that?

Tribhuwan Adhikari: Yes. There are a few -- of course, NCLT, there are a lot of loans in NCLT. NCLT the process does take time. Yes, there are a few green shoots, I would say, some, I think, three big loans in which we expect a positive result over the next two quarters. I won't name them specifically, but they are sizable loans INR250 crores, INR400 crores and one of about INR375 crores. So definitely we expecting and hoping and praying that some of these loans get resolved.

Raghav Garg: Okay. And just last question, your ECL Stage 1 and 2 cover, you would look to maintain these levels, right?

Sudipto Sil: Yes. I think regarding the PCR of -- I mean, Stage 1 and 2, as we've already discussed at the beginning. So by and large, a few basis points up or down could be there as far as the Stage 1 is concerned. Stage 2 also the asset pool itself is not very large. So I mean, you can say that probably it will range around, say, 4% to 5% kind of a number.

Moderator: That was the last question for today. I would now like to hand the conference to the management for closing comments.

Tribhuwan Adhikari: Yes. Thank you, friends. We've had a reasonably I would say, slightly weak. Traditionally, the first quarter of the year has been slightly weaker. And since we do compare Q to Q normally, we compare Q4 to Q1. And Q4 traditionally is always the strongest quarter for any company because a lot of efforts do go in being the financial year end.

But however, on the operational area, there are improvements, and we see a lot of, I would say, a silver lining, if I may use the word for the future quarters, Q2, Q3 and onwards. So there is room for further improvements, which we have fully geared up for.

We thank you for your continued support, and I would want to request all of you to continue to support the company. On behalf of the company, let me assure you, we are doing all we can to improve our performances further. As far as profits are concerned, I think we should continue to do well.

The only area which we are slightly worried about is, yes, the margins. And I've said, I think the margins we have reached -- we have bottomed out. I think the margins are not going to fall any further than this. And the main focus naturally is going to be our book growth and our disbursement growth with a little bit of emphasis on higher margins as compared to what we've been getting in the past. So thank you all. Thank you so much.

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