“LIC Housing Finance Limited

Q3 FY '25 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '25 Earnings Conference Call of LIC Housing Finance Limited hosted by Axis Capital. 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, Mr. Agarwal.

Praveen Agarwal: Thank you, Michelle. Good morning, everyone, and welcome to the earnings call of LIC Housing Finance. From the management team, we have Mr. Tribhuwan Adhikari, MD and CEO; and Mr. Sudipto Sil, CFO, to take us through the results. I would request Mr. Adhikari to share his initial remarks, post which we'll open the floor for Q&A. Over to you, sir.

Tribhuwan Adhikari: Thank you, Praveen. 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, LIC HFL declared its Q3 FY '25 results on 31st of January 2025. Before I start the highlights of the Q3 results, I would like to outline a few of the developments in the economy of the last quarter. The interest rate scenario has been quite volatile during the last quarter with the RBI changing its stance in its October MPC meeting and the Q2 GDP numbers coming in at a drastically low level of 5.4%.

An anticipation of rate cut was built up in December; however, due to weakening of INR against the US dollars and a very tight system liquidity, the rates were kept at the same level. Further to ease out the liquidity stress in the system and create a base for a possible rate cut in February meeting, RBI has taken several steps like reduction in CRR, daily VRR and OMO. The Union Budget announced just 2 days back, proposes income tax relief for the middle class, which will certainly create much more purchasing power in their hands.

As a basic necessity for this segment, this liquidity would definitely be a welcome step for housing finance, and we expect housing finance to take a major share of this savings. With this, we present the financial highlights of the company for the quarter, which were as follows: Total revenue from operations stood at INR7,057 crores as against INR6,972 crores for the corresponding quarter of the previous year, showing a growth of 4%.

Outstanding loan portfolio stood at INR299,144 crores as against INR281,206 crores as on 31st December '23, reflecting a growth of 6%. Out of this, the individual home loan portfolio reported a growth of 7% and comprises 85% of the total portfolio. During the quarter under review, 2 of our largest centres, Bangalore and Hyderabad were impacted due to some external issues due to which disbursements to the tune of INR700 crores to INR800 crores were impacted.

The issues pertaining to Hyderabad have been resolved and sorted out in December. However, Bangalore is yet to be resolved, which we believe should be resolved in the month, so that the accumulated business would grow in this quarter from Bangalore. Total disbursements for the quarter was INR15,475 crores as against INR15,184 crores for Q3 of FY '24, a marginal increase of 2%.

Out of that, disbursements in the individual home loans were at INR12,248 crores as against INR12,868 crores, whereas project loan was at INR983 crores as compared to INR375 crores for the same quarter in the previous year. During the quarter, the company launched a special product in the Affordable Housing segment in select centres. This, we believe, will be a major driver for growth as well as margins in the quarters to come.

The product is priced about 250 to 300 basis points higher than the retail mortgages. Though still early days, initial trends are encouraging. On the net interest income front, NII was INR2,000 crores for the quarter as against INR2,097 crores for Q3 of FY '24 and INR1,974 crores for Q2 of FY '25. Net interest margins for the quarter stood at 2.70%, flat almost because the previous quarter, that is Q2 of FY '25, it was 2.71% and 3% was the NII for Q3 of FY '24.

Profit before tax for the quarter stood at INR1,793.44 crores as against INR1,448.69 crores, up by 24%. Profit after tax for the quarter stood at INR1,431.96 crores as against INR1,162.88 crores for the same period in the previous year. In terms of asset quality, the Stage 3 exposure at default stood at 2.75% as against 4.26% as on 31-12-23 and 3.06% as on 30th September '24.

Total provisions as on 31st December, '24 is INR4,974 crores, reflecting a provision coverage of almost about 48% on Stage 3. Technical write-offs amounting to INR174 crores were taken during the quarter. The company also conducted a sale of a highly stressed exposure through ARC for a cash consideration of INR250 crores during the quarter. For the coming quarters, we are confident of some more resolutions.

There is a strong visibility of further reduction in Stage 3 in quarter 4. On the funding side, we have witnessed an increase in cost of funds, which stood at 7.78% as compared to 7.73% as on 30th September '24, attributable to a very tight liquidity and increase in benchmark rates like T-Bill and G-Sec. Incremental cost of funds also inched up and stood at 7.75% for Q3 of FY '25.

We have taken a PLR hike of 10 basis points, which will offset the cost increase and will be effective in Q4. The outlook for the coming quarter remains positive as Q4 is always a good quarter in terms of business for the company, which gives us conviction of a good financial year.

With this brief introduction, I would like to invite you for your queries. Thank you.

Moderator: The first question is from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania: I just had a couple of questions. Firstly, that we did have a discussion around interest rates in the second quarter earnings. But I just wanted to check one thing that in the past cycles, we've seen that your PLR would have -- that is your repricing of existing loans could have lagged with the banks, right? Because your PLR depends on your own cost of funds, not what the private banks do?

So wouldn't that increase the risk of a balance transfer, should the rate cut cycle resume or start? So that's my first question. And my second question is on growth. So what do you -- what would be a fair assumption for growth in FY '26, right? Because it's currently 6%. 4Q, you have guided to an improvement. So what growth can we look forward to in FY '26? These are my initial questions.

Tribhuwan Adhikari: Yes, Mahrukh, I'll take the growth question first. Yes, as on 31/12/24, our growth is 6.38%, the AUM growth. And the beginning of the year, we had guided to 10%, if you remember. And as I said in my early briefing, 2 of our major regions, Hyderabad and Bangalore, were impacted quite severely in Q3, I would say. Hyderabad was mostly on account of formation of a regulatory body called HYDRAA by the government.

And Bangalore was because of some technological issues regarding launch or, I would say, registration of the properties through an electronic system. So these 2 centres are our major contributors almost contributing to 35% of our book. And an impact in these centres did sort of push us back. As I said, INR700 crores to INR800 crores is the pushback that we got in Q3. Hyderabad is now okay. Hyderabad is now settled.

The government has realized that, yes, they probably heard in being too aggressive with HYDRAA. So that has now sort of stabilized and business is picking up in Hyderabad. In Bangalore, we have a lot of undisbursed sanctions on our book, in the sense that people have applied for loan, we have sanctioned those loans. But as you know, in housing finance, until and unless the property is registered, the disbursement cannot happen.

And the problem there, the technological problem there is regarding registration of properties. So we had -- we have a significant book build-up there, which can only translate to disbursement once the properties are registered with the concerned authorities. So I expect -- Bangalore also, the government is working on it and it's coming out with positive sort of references that no, no, we are aware of the problem, and we are trying to deal with it.

So I expect Bangalore also in the coming -- in January, yes, there has been some slight improvement, still a huge backlog of cases pending for registration. I expect this to ease out in February and March. So probably by March, we'll be back on complete normal track. So as of now, 6.38% is what we are at. And I am -- well, to be very honest, I am not expecting a double-digit growth.

But definitely, somewhere we will be touching 9% on -- in IHL in the current financial year with improvements in Q4. Next year, we are definitely hopeful of a good double-digit growth backed by some of the foray, I would say, into the affordable housing, which we went into in the third quarter with the launch of a specific product. Early days yet, but yes, the signs are encouraging and impressive. As regards ROI and balance transfer, Sudipto, can you take it?

Sudipto Sil: Thank you. Yes, Mahrukh, actually, as far as the balance transfer triggered by rate of interest movement is concerned, we are fully aware of it. And we are, I would say, well prepared this time around because -- in fact, we can say that by the time there will be a proper rate cut announcement, we will already be seeing some kind of improvement in the bond market rates. This time, it did not come up because of the tightness in liquidity.

But with the Reserve Bank coming out with a slew of measures addressing the liquidity front, we are likely to see a kind of improvement in the short-end papers, basically the money market instruments, which are basically the, I would say, indicators for the rate movement. This improvement, we are likely to see in this month.

And by the time the impact of the rate cut, if it would happen, that will actually come up in the month of April, we should be in a position to address it suitably. And most likely, we will be matching the rates without cutting the margins.

Mahrukh Adajania: I just had one question on self-occupied property. So does that clause help you a lot because your average ticket size is not big, right? So...?

Tribhuwan Adhikari: Yes. Mahrukh, yes, definitely, definitely. I think self-occupied -- allowing the second home as self-occupied property would give a boost to the entire industry. I believe some people would be sceptical about going in for a second property because it would form a part of their income or whatever the income. So yes, definitely, it is -- it would help the industry, I would feel, and it would help us because, as you said, our ticket sizes are small.

So I think people would be more encouraged to go in for a second home, people who have been holding back. So definitely, that will give us some boost.

Sudipto Sil: Actually, this addresses a big segment of population where people are not able to occupy a house because of their nature of employment, they are staying somewhere else. So this is certainly going to improve -- I mean, especially the middle class, a good segment of whom who are having 2 houses, this tax benefit will certainly help.

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

Avinash Singh: A couple of questions. First one, if you can just provide some color on that ARC sale, what was the gross exposure? What was the net and, of course, cash calculation is given? So that's question number one. Second question around growth once again and not just for the quarter, more sort of a structural. If we see like post-COVID last nearly 4-odd years, the growth in particularly the prime housing loan.

Even in salaried class have been reasonably good for the industry, be it banks and others. And even from the developer perspective, developers, the project launches and all particularly had consolidated the top category developer where typically you see your potential customer base, the Cat-A developer, they have also been in kind of an expansion spree in the last 3 4 years.

Even in this backdrop, if we go back and look at the growth, the growth has been kind of a challenge. So the question here is that, okay, is it something to do with structurally you are facing issue due to size? Or is it due to competition? Because even if I come to competition, your yields in most of these segments are highly competitive, even very, very close with some of the banks.

So a bit if you can provide some color on the structural and direction of growth because I mean, it seems that there is something beyond this typical competition or interest rate that's playing out? These are 2 questions.

Tribhuwan Adhikari: Yes. Avinash, coming to that first thing on ARC sale, yes, this was a big stressed account, which we have been after for a long, long, long time. The total volume of the disbursement or outstanding principal was INR510 crores. We took it to the ARC and finalized the deal at INR250 crores, all cash, and that materialized in the third quarter. So since it was fully provided for, that means 100% provisions were there, -- so it did -- there was not a write-back. It was completely provided loan. So we got the benefit of that in Q3. So this is about the ARC sale.

And as regards to growth, yes, you talked about the prime and the developer segment. Well, honestly speaking, yes, we have a very large book of INR3 lakh crores. So growing from such a big base is always a challenge, I would say, right? It would be difficult if you equate us with some of the smaller HFCs, which have a book size of one-tenth of ours or, say, of that size.

But the other part, which we are looking at as a company is now what do we -- do we really grow the book or do we grow the margins? This is the conundrum we are facing right now. You alluded to the Prime segment in IHL. Yes, the Prime segment in IHL is a very keenly contested and heavily, I would say, competitive segment.

All the banks are there, we are there, the bigger HFCs are there. So this is a very contested segment, and it's very, very non-margin accretive I see, as of now. Similarly, in the developer book, if you talk about the triple, of course, there's no one in AAA, the AA or the double -- BBB, these developers, especially the big top-notch developers, they are looking for construction finance at rates as low as 8.5%, 8.6%, 8.7%, almost on par with my IHL rates.

So again, there is -- one needs that -- what we are looking at is do we really need to grow our books -- construction finance book with a rate of 8.5%, 8.6%, 8.7%, which some of the banks are waiting to offer? Or do we do a trade-off that grows slightly slowly, but try to get margin accretive business. So that is the thought process right now. And because of that, we have started looking into the affordable segment and, as I said, we have launched a product in the third quarter.

We are very, very keen on growing this affordable segment book because, as I said, we have priced it at 250 to 300 basis points more than our IHL rates. And plus, there is a demand in this segment. But yes, we are going slow because we need to build the infrastructure because it has not been our sort of regular business, regular model, which we are into, slightly risky, no doubt, but definitely margin accretive.

So all these factors put together, I think, yes, you are right that the growth has not been what the industry growth has been. But I think we are not aiming for very high growth or probably not trying to catch up with the industry level growth. Right now I think as a company, we are more focused on getting margin-accretive business, even if it means cutting down or coming below the market expectations of high growth.

Avinash Singh: Just a small follow-up now again on this affordable piece given, as you rightly said, INR3 lakh crore kind of a loan book and is affordable that ticket sizes are small. They are very, very kind of opex-intensive feet on the street model as opposed to, I mean, typically what so far you have been doing more into Prime segment. So now, I mean, is this kind of a directional change worth it? Particularly, yes, there could be some marginal delta in margins, but even that will be fairly limited because you are sitting on a INR3 lakh crore loan book.

And in affordable, if you see today, the biggest player would be total they're sitting with a INR20,000 crore loan book at once. So now you will take time to go there. And in this process, you will have this increased operational intensity and cost and all. So is this kind of a shift in direction worth it, particularly, I mean, in the backdrop that when the Prime, there are not many.

I mean, banks are there, but there is definitely a kind of a vacancy created by 1 HFC merging with a bank. So is this your venture into affordable worth it the pain that will kind of move the needle much, whether in the margin profitability or in the growth?

Tribhuwan Adhikari: No. Avinash, well, we are not vacating Prime as such. It does not mean that our move into affordable will be at the cost of the Prime or the kind of book we've been -- business we've been doing right now. But we are very well aware of the pains of affordable. Yes, it's going to be slightly cost-intensive, feet on the street, I would say, slightly riskier with maybe a probability of slightly higher delinquencies. Yes, we are fully aware of that. But we are not jumping into it or I would say we are not totally foraying into it.

This is -- this, we are going to develop over a period of time. I'd say at least it's going to take us 3 years, probably 2 to 2.5, 3 years to really get into it. And this will be a new segment, a new vertical, which we are trying to create. We will be having a totally complete -a different infrastructural setup for this. We are not going to merge it or link it with our existing Prime and the salaried class business.

And we are very conscious about getting into it slowly and steadily because we believe this is going to be the segment in the coming years, which is really going to grow. The Prime or the salaried class segment, there's going to be tremendous competition and with the kind of competition there already is banks probably advantaged by their lower cost of deposits, the CASA deposits coming in. I do not know whether we, as an HFC will be able to -- we'll really want to get into that -- this severe competition just to build our books.

I think we will be looking at -- yes, definitely, we'll be looking at building our books. But we will be looking at building our books with probably a slightly higher margin than we are getting today.

Moderator: The next question is from the line of Dinesh from KRD Capital.

Dinesh: I have 2 questions. Are we looking for acquisitions? Basically, there was a con call in Canara Bank, they were planning to divest their subsidiary, Can Fin Finance. Are we looking for it? If not, can we have some additional dividends from you? And what are the things to do to reduce the cost of deposit? Or maybe can we borrow it from our parent company, LIC? These are the 2 questions from my side.

Tribhuwan Adhikari: Yes. First question as regards to acquisition, no, nothing on the horizon so far. Nothing being discussed as of now, right? But let's see when the -- we do not rule it out as well. We do not rule it out as well. Let's see if an opportunity presents itself, definitely, we'll be going to the Board and discussing with the Board. This will be a part of our strategy when we have the strategy meet somewhere in the month of March. On merits, we'll decide regards the acquisition. And the second part of the question, what was it, Dinesh?

Dinesh: Dividend, dividend. Is there a possibility to increase the dividend?

Tribhuwan Adhikari: We're already paying a high dividend, right, 450% on -- and that's a pretty high dividend. Anyway, let us see. This is a call taken by the Board. So nothing has come up yet. Last year, it was 450%. Let's see what happens this time. What does the Board feel about it. So that is about the dividend.

Dinesh: Yes. And cost of deposit. Cost to borrow from our parent company?

Tribhuwan Adhikari: Cost of deposits. Yes, cost of deposits, we are very consciously not increasing our -- well, banks are in a deposit war. Banks are very competitive as far as cost of deposits are concerned, and they are really paying some astronomical rate of interest to get deposits. We are not so much fighting the deposit war. The deposits are just 6% of our borrowings right now. And we have not increased our deposit rates at all. We are not trying to match the banks at all. And yes, your question on whether we can borrow from our promoter group, that is...

Dinesh: I think, I lost you.

Moderator: Sir, I'm sorry. Yes, sir, the line for the management has been disconnected. Please stay connected while I try to reconnect them. Ladies and gentlemen, thank you for patiently holding. The line for the management has been reconnected. Over to you, sir.

Tribhuwan Adhikari: Yes. Dinesh, where did we drop off?

Dinesh: So we were talking about borrowing from the parent company.

Tribhuwan Adhikari: Yes. Right now, borrowing from the parent company, we are restricted by IRDA because of the related party issue. So until and unless those restrictions are removed and IRDA gives us some space, I don't think we would be in a position to borrow from the parent company.

Sudipto Sil: However, Dinesh, I might add that our resource base is well diversified. And I mean, we are having access to the best pricing from the wholesale debt market through bonds and commercial papers and even from the banks also. As far as the liquidity is concerned, there is no issue in the liquidity. There is no issue in the pricing as well. We get the best of the pricing. You can check up from the debt market data.

So that if something comes up in terms of related party -- some relaxation, then obviously, it will impact -- this will have a positive impact. But otherwise, I think we are well capitalized and the liquidity is also quite comfortable.

Dinesh: And we cannot borrow from SIDBI, NABARD at lower rate?

Sudipto Sil: Sorry?

Dinesh: We're already borrowing at less than 6%.

Sudipto Sil: Yes, yes. See, these are market rates, market rates. We are accessing all types of funding from various market participants, including the names that you have spoken.

Dinesh: Then why our NIMs are very low as compared to bank. If I compare with Bank of Maharashtra, which has got more than 4%, they borrow from SIDBI, NABARD?

Sudipto Sil: No, I think the comparison is not correct because when you are talking about some banks, the banks will be also lending to various types of industries and various types of customers, whereas we are dealing only in one product, which is housing finance. So that comparison with any bank, I think, is not a fair comparison because the banks will be lending to various, various segments, including personal loan, unsecured loans, MSME, corporates, whereas our business and our customers are essentially the individual home loan customers.

And obviously, you are aware that banks are having access to CASA. NBFC or an HFC doesn't have CASA. So I think the comparison with any bank is not -- I mean, it is not apples-to-apples comparison.

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

Kunal Shah: Yes. A couple of questions. Firstly, when we look at it in terms of the yields, so yields have come off on a quarter-on-quarter basis. While last time you indicated that there is a recalibration we have maybe tweaked the lending rates and the differentiated rates are being offered now. So what could be the impact? Is it more to do with income from the NPAs, which has impacted yields? Or is there anything else to read into this?

Sudipto Sil: No, actually, we had tweaked the pricing, as we have said in the last quarter itself. So that is actually giving us better incremental yield. But even after the increases, the rates at which we are lending today are obviously lower than the rates that we were lending maybe a couple of years back. So that there always will be that much of a, you can say, decline in yields, especially if you consider the wholesale piece, which has been coming down quarter after quarter.

Kunal Shah: So more to do with the mix change and slightly lower rate.

Sudipto Sil: It is a mix change because if you just look at maybe a couple of years back, the wholesale piece was above closer to 4%, 4.5%. Today, it is less than 3%. So for every single percentage decline in the wholesale piece, the overall NIM impact is around 300 to 350 basis points.

Kunal Shah: No, I was specifically asking from Q2 to Q3. Yes.

Sudipto Sil: Yes. Even from Q2 to Q3 also, there has been a decline in the wholesale lending piece as well in terms of the pricing because there have been some high-yielding accounts, which have been repaid and closed.

Kunal Shah: And nothing to do with the income from -- or maybe recovery from NPA, which was -- maybe which impacted in 1Q. We have not disclosed that in Q2, Q3.

Sudipto Sil: So that -- I think that number has more or less stabilized. That number has more or less stabilized. So it is not having any incremental impact, either positive or negative.

Kunal Shah: Got it. Got it. And secondly, in terms of the disbursements, so this INR700 crores, INR800 crores impact would be per month because of these 2 states? Or is it likely...

Sudipto Sil: No, no. For the quarter.

Tribhuwan Adhikari: This was a quarterly impact. Impact for the quarter.

Kunal Shah: So even if I add back INR700-odd crores, it doesn't seem to be a very significant number. So even when we look at it, in fact, it's not so high.

Sudipto Sil: IHL piece would have probably crossed INR13,000 crores on a stand-alone basis. If we have been able to...

Kunal Shah: Sorry, sorry.

Sudipto Sil: The IHL, the individual home loan piece, the disbursement, which was around, say, INR12,200 crores or INR12,300 crores, that would have crossed INR13,000 crores have we been able to get these 2 pieces of business during the quarter.

Kunal Shah: Yes. But even year-on-year would have been not that great because last time also, it was like INR12,900-odd crores any which ways. Yes.

Sudipto Sil: No, that was total business. That was full business. I'm talking only the individual home loans and not considering the NHI, not considering the project, of course.

Kunal Shah: No, that's what I'm saying. Q3 FY '24...

Sudipto Sil: Straight away the disbursement figure would have been in excess of INR16,000 crores.

Kunal Shah: Okay. No, no. So this quarter, individual home loan was INR12,200 crores.

Sudipto Sil: Yes. That would have...

Kunal Shah: If we add on INR700 crores, INR800 crores...

Sudipto Sil: See, as the total business -- if you see the total business -- Kunal, if you just see the total business, which was around INR15,400 crores would have crossed INR16,000 crores.

Kunal Shah: Yes, yes. But even if I'm saying, even if I compare it with Q3 of last year, it was INR15,200 crores. So it's not a huge growth, which have been there any which ways.

Sudipto Sil: INR15,200 crores to INR16,200 crores, I mean, of course, the base itself is a INR15,000 crore base, but the number would have increased by INR1,000 crores on a year-on-year basis.

Kunal Shah: Okay. And the sanction pipeline, which you indicated at Bangalore, how much would that quantum be? And if we can just get the number on the monthly disbursement run rate, which we are expecting for the Q3, could it still be like INR6,000-odd crores, which we can easily do for this quarter on an average?

Sudipto Sil: Yes. Certainly, we are doing that.

Kunal Shah: And undisbursed sanctions in Bangalore, how much is that quantum?

Sudipto Sil: INR600 crores. Approx INR600 crores.

Kunal Shah: INR600-odd crores. Okay. Got it.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal: Just circling back on growth. Just trying to understand, I mean, if you could help us understand that between December and January, what was your disbursement run rate like? What was it in December and what was it in January?

Sudipto Sil: See, exact figures of January, we'll not be able to share, but we can share that more or less the run rate that we had indicated that we are very much there in terms of disbursement for the month of January. December, we've already told you December was impacted because of certain -- this Bangalore and Hyderabad kind of external situations. But January, we are back in terms of Hyderabad, the business has come back fully.

In Bangalore, we are still awaiting a resolution in terms of the registration pipeline getting opened. It has improved as compared to what we had seen at the peak of the situation, which was in end of November, beginning of December, but it still has to be resolved. But as far as Hyderabad is concerned, we are back on track completely.

Abhijit Tibrewal: Got it. And sir, just trying to understand, given that Bangalore is still weak and we are expecting maybe this month, next month, it will get better. But given that it is still not recovered, then being even in a quantum of IHL disbursements that maybe we did in 4Q of last year is unrealistic then, right?

Sudipto Sil: Sorry. Can you...

Tribhuwan Adhikari: No, no. Abhijit, if I may just come in, Bangalore is slightly different. Hyderabad was a question of business not being -- not coming. Bangalore, we are getting business, right? Our sanction pipeline is growing day by day. The only problem is that these are not being converted to disbursement because those properties are not being registered because of some technical glitch in the allotment of what they call e-Khata numbers, right? Because you have to get an electronic Khata number before you are allowed to register a property.

So our marketing activities are going on as usual, full swing. People are coming and applying for loans. The only problem is that they are not being disbursed because the registrations are slightly held up because of this issue. So I would not say that Bangalore is going to really pull us back because the moment this situation or this e-Khata issue or this technical issue is resolved, we should be able to disburse large numbers and volumes of loans in a go, in one go.

Abhijit Tibrewal: Got it, sir. So just one clarification on that, which essentially means that whatever we have guided for FY '25 or the fourth quarter in terms of loan growth is at least predicated on the hope that Bangalore will improve, and we'll be able to disburse whatever we have sanctioned.

Tribhuwan Adhikari: Yes, definitely. We are expecting -- because see, the government also is losing a lot of revenue. Government also is concerned, right? And so this is a technical issue. It's something, which does not need any change in policy or anything of that sort. They are engaged with the technical partners whoever they are. I'm not very sure. But I'm sure that we have seen signs of improvement in December towards the second part -- the latter part of December.

And in January also, Bangalore, the kind of the pullback, which we witnessed in December or the deficit, which we witnessed in December has significantly come down. So that is why we are hopeful that Bangalore is also going to contribute normally in quarter 4.

Abhijit Tibrewal: Got it. And last question that I had on asset quality, 2 subparts to this question. The first one is, I mean, while we did resolve 1 large account on the project side in 3Q, if you could give some color on what project loan resolutions are expected in 4Q, the quantum of these loans? And what are your expectations on recovery? And the second part for Sudipto, sir, if you can share, I mean, the Stage 3 segment-wise asset quality that we share in every earnings call.

And given that there were INR250 crores of recovery or provision write-backs in this quarter. I mean, how did we think about, I mean, creating some management overlay? And consequently, what impact it could have on the credit costs for the next fiscal year, FY '26?

Sudipto Sil: Next fiscal year, okay.

Tribhuwan Adhikari: Yes, Abhijit, talking of asset quality, we are very upbeat about the asset quality. We have been systematically and consistently improving our asset quality. Well, from 4.26% in the same quarter last year, we are down to 2.75% this year. Compared to Q2, 3.06%, we are down to 2.75%. So asset quality, we are pretty assured that it's only going to improve. No doubts about that.

Now coming to big lumpy resolutions in Q4, as I've always alluded, these big cases, these lumpy cases, they are at various stages of resolution, some in NCLT, some in the courts, some discussions and deliberations going on. Some cases, we would be putting up to ARCs on an all-cash basis.

But again, these -- yes, there are some 4 or 5 cases, which are, I would say, almost maturing, almost maturing, but you can never put your hands on them and say that or say with any certainty that I'm 100% sure that this case is going to come through or that case is not going to come through. You never know.

These 4 or 5 cases I'm talking of, they are at very advanced stages of resolution, could happen. We are optimistic that at least 1 or 2 of these cases will come off in Q4. We are doing all we can to ensure that these mature in Q4. So that is all I'd say. Overall, I would say the -- our guidance on asset quality is that we are very, very positive of improvement in the asset quality in Q4.

Sudipto Sil: Yes. Abhijit, balance queries, I will take, but just I would like to add is that the focus is obviously on the large ticket cases. We have identified the large ticket cases as the ones that we will tackle first. We've already demonstrated with 1 such ARC sale and various other types of resolutions are also on track. What MD mentioned is that some of them are at, I would say, quite advanced stage, and we hope that there will be a positive surprise.

As far as the numbers that you had asked for, you can just note it down. For the total Stage 3 for the entire book is around 2.75%. As far as the project, the individual home loan is concerned, that is at 1.2% Stage 3. For the non-housing individual, it is 4.59% Stage 3. And as far as the NHC plus project, that is non-housing commercial and project put together, the Stage 3 is 27%. Overall working out to 2.75%.

Abhijit Tibrewal: Got it. You said IHL was 1.3%?

Sudipto Sil: 1.2%.

Abhijit Tibrewal: And sir, lastly, I mean, how do you think about credit costs for the full year FY '26?

Sudipto Sil: Credit cost, if you look at it, this quarter, there has been a negative variation in credit cost despite the fact that we have actually taken higher provisioning on -- as management overlays on some accounts, especially some accounts where we expected that there could be a weakness. So fully provided those accounts despite that we have had a negative credit cost.

I would not say that we will have a negative credit cost in Q4 also, but I would say that it will be fairly low in terms of our overall guidance for the full year, we had guided about 20 to 30 basis points. I think we should be substantially lower than whatever we have guided, and that should give us a good release in terms of PPOP and PBT levels.

Moderator: The next question is from the line of Varun from Kotak Securities.

Varun: I just wanted a clarification on the affordable housing piece that we are building up. So what kind of investments are we looking to make in this business in the next 1 year out or the next 3 years? And the second one is with regard to the cost. So if you look at opex, there's a spike that we see in 3Q. Is this because of investments in the new business? Or is there a wage hike or a provision for a wage hike?

Sudipto Sil: Yes. I will take the second part of the query. That is pertaining to the one-off. You're absolutely right. We have had a one-off in the cost line that is pertaining to some gratuity provisions that we had made pertaining to the proposed wage revision, which is likely to get completed in this quarter. So with that, all these provisions that we have made as one-offs for the last several quarters will get closed. It will come to an end. That is one thing.

So that is an impact of around INR30 crores, which is basically a one-off in the cost line this time. Your other query was pertaining to the investments in the affordable. I would request MD, sir. Actually, investment per se, we do not need any major infrastructure upgrade because we already have presence in a large number of Tier 3 and Tier 4 offices already. And to start off with, we will be rolling out the product in those centres, but the remaining, our MD can.

Tribhuwan Adhikari: Yes, Varun, coming to your investment part as far as affordable is concerned, yes, we do realize that this is a completely different ball game altogether. It requires a different skill set and different sort of an expertise to take it forward. Right now we've launched a product in Q3, and we are pushing it with our existing manpower, existing resources. But ultimately, in the next financial year, we're looking at probably trying to build up a separate infrastructure, maybe not in terms of offices or such, but a separate marketing, collection, recovery team and affordable, especially a credit appraisal team in affordable.

We will be taking it to the Board in the month of March. Right now we are formulating that strategy. So difficult to come up with a number as to what would be the quantum of investments. But probably beginning of next year when we have the strategy in place and we've decided to go ahead, we will be calling. It will -- but it is not going to be anything very significant. As I said, we are not going gung-ho jumping straight away into it. In 1 year, we'll slowly build up the capacity and we will try to go in with as far as possible, a low opex model.

Moderator: The next question is from the line of Mohit Jain from Tara Capital.

Mohit Jain: I have a question regarding the margin. I believe, sir, you said that you will prefer to have the margin -- you prefer to protect the margins over the growth. Just wanted to understand what are the levers we are having from the margin front considering the fact that the affordable housing part is going to be a longer journey. So I don't think incremental delta is going to come there. And in case we are having a rate cut, so what is -- what can be the possible margin levers for us?

Sudipto Sil: See, obviously, one of the margin levers will be the foray into the affordable segment. And whatever accretion happens on that book will be always margin accretive. Even it is a very small number, it will be margin accretive. Secondly is that very recently, we have -- as we mentioned in the opening remarks, we have affected a PLR hike that was basically to offset some of the cost, which was driven because of the tightening liquidity situation and which we expect to ease over a period of time.

The third is obviously more and more assets coming into -- from the nonperforming to the performing area that itself is margin accretive and there we have made a significant improvement. The fourth lever is obviously the turnaround in the project. For example, for the last 7 -- 6, 7 quarters till June, you have witnessed a gradual decline in the project loan portfolio.

Now for the last 2 quarters, you would probably have seen a turnaround and a positive accretion in terms of the project finance portfolio. Obviously, the project finance portfolio is a better yielding product segment as compared to the other segments. So I would say that there are 4 levers in terms of margin recovery and margin, I would say, stability in the fourth quarter, getting into the next year.

Mohit Jain: Okay, sir. And sir, just one more thing. On the AUM growth, sir, you said that we'll be ending the year most probably with 9%. Sir, when we started the year, we had a disbursement target of INR75,000 crores and a double-digit AUM growth. I think since last 7, 8 quarters, our loan growth has been pretty slow. I understand this quarter, we had a problem of Bangalore and Hyderabad. But even if we include that, is it fair to say that structurally, we are heading towards our lowest growth numbers of somewhere mid-single digit over a longer period of time?

Sudipto Sil: No, I think if you look at this year itself, right from March into June, September and December, the overall AUM growth has been trickling upwards. We started the year at around 4% AUM growth, if you recollect on a year-on-year basis, which has now come up to more than 6.5%, around 6.5%. Of course, the numbers may not be very large in terms of moving the needle, but one has to also consider the fact that the 2.5% incremental growth number has arrived on a base of close to INR3 lakh crores.

There is a movement. Probably the movement is not felt because of the large base. But certainly, the move is towards the increase in the AUM on a progressive basis as far as the growth number is concerned.

Mohit Jain: Okay. So we are optimistic of touching double digit even next year as well?

Sudipto Sil: Yes, certainly, that will come. That will certainly come.

Moderator: The next question is from the line of Chintan Shah from ICICI Securities.

Chintan Shah: So first, a data keeping question. So of our total borrowings of INR2.65 lakh crores, how much percentage of that, sir, would be floating in nature and how much would be fixed in nature? Any sense on that?

Sudipto Sil: See roughly around, say, 55% will be floating and there will be another 20% of the balance, which will be reset during the year. So you can say about 65% will be either fully floating or will be floating because it will get reset during the year.

Chintan Shah: Okay. A year means this financial year, so in Q4?

Sudipto Sil: Any 12 months. A period of 12 months.

Chintan Shah: Okay. Sure, sure. Sure. And sir, on affordable, I think we are backing too much -- we are backing on the affordable space that will be margin accretive and also growth accretive. So probably down the line, or say, next 2, 3 years, what kind of loan book are we looking on the affordable space or how much affordable would be as a part of the total AUM?

Tribhuwan Adhikari: I think in the next 2 to 3 years because see it's early days yet. We've just launched the product and are trying to market it through our conventional channels, if I may use the word. Next, I would say, in the next 2 to 3 years, about 10% of the loan book should be affordable.

Chintan Shah: Okay. So probably INR3 lakh crores -- INR30,000-odd crores it would be the current number, assuming the current...

Tribhuwan Adhikari: Yes, yes. INR25,000 crores to INR30,000 crores in 3 years.

Chintan Shah: Okay. But to us, our loan AUM -- our overall AUM, sir, also would go -- probably, our AUM will also touch around 3.5, 3.60. So it will be around 6%, 7 percentage, right? Or 10...

Tribhuwan Adhikari: Correct. Correct.

Sudipto Sil: Correct, correct. You're right. You're right.

Chintan Shah: Okay. And given that the current -- among the affordable players right now, I think the highest also is around INR21,000 crores, INR22,000 crores. So what gives us the kind of confidence? So will we be offering lower rates as compared to the peers? Or what would be our main USP to attract key customers?

Tribhuwan Adhikari: Well, if you look at the affordable book and the pure play, the affordable housing players, I think their rates are anywhere upwards of 13% or so, right?

Chintan Shah: Yes.

Tribhuwan Adhikari: Yes. And we would -- yes, you are right in a sense that we would be very competitive as far as affordable. As I said, our existing products, which we have launched is just 250 to 300 basis points more than our conventional products. So to be spot on, I would say, our affordable product starts at 11% as compared to somewhere around about 13%, 14% for some of the pure-play affordable housing companies. So yes, we are going to be competitive.

And we are also going to -- we also do have a pretty big reach in the sense right now, we are spread across all over the country, 310 locations, et cetera, et cetera. Of course, we will be creating a separate vertical, which will probably be housed in these very locations. So I think our reach also would be significantly better than some of these affordable players. And then finally, the brand connect would, of course, definitely be much, much more helpful to us.

Sudipto Sil: Just to add, none of the pure-play affordable housing players as they exist today have got a pan-India reach of the size anywhere close to ours.

Chintan Shah: Sure, sure. So probably we'll also be penetrating into some of the areas, which are not penetrated by the affordable players right now.

Sudipto Sil: It is possible. Going forward, it will certainly be further enhanced. The reach will be further enhanced going forward.

Chintan Shah: So any top 5 or 10 markets, which we are looking to first get into? Top 10 markets, any specifics on that?

Sudipto Sil: Specifically, we cannot give out the cities, et cetera, but largely, it will be focused on the Tier 4 -- Tier 3 and beyond. Tier 3, Tier 4 and beyond. Those centres, many of the places we are already having offices, so those will be the first where we will be pitching our product.

Chintan Shah: Sure, sir. And just lastly, on the fee part. So apart from the yield, which we started 11%, what would be the other income component, fee income or insurance cross-sell? What would that percentage be of the book -- overall book? Yes.

Sudipto Sil: You're talking of the affordable piece or...

Chintan Shah: Yes, on the affordable one. So basically, 11% is the yield and apart from yield, the processing fees or the insurance cross-sell, what would be that additional income part from the affordable pool, yes?

Sudipto Sil: Additional will be the normal processing fee. Of course, as far as the processing fee and other charges are concerned, we are in the process of revamping the entire fee structure across all product categories, and that work has already started from 1st of January. Some places, we have increased the fees. And going forward in the next couple of months and more prominently from April onwards, you will see a completely different fee structure where we will be significantly enhancing the fee contribution as a percentage of the total revenues.

But those probably in the next quarters, we'll be able to give you a bigger -- greater information.

Chintan Shah: Sure. And this revamp would be for the entire book, right? Or not only on the affordable?

Sudipto Sil: Which one?

Chintan Shah: Or only affordable. So the revamp fee income, which you told there would be a complete revamp of the fee income, entire book?

Sudipto Sil: Entire, entire. All product categories. It is in all each and every product category.

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

Gaurav Jani: Just 2 main points that I want to cover. One is on the provisions, right? So just to clarify, the INR250 crores of sales, so that was affected in the provision, right? So the provisions are net of the INR250 crores?

Sudipto Sil: Yes. Can you -- didn't -- could not hear your last part of your query. Can you please repeat kindly?

Gaurav Jani: Yes. So what I was asking is, sir, that the sale to ARC number of INR250 crores, so that would be affected in the provisions, right? So the provision negative number is net of the INR250 crores?

Sudipto Sil: Correct, correct.

Gaurav Jani: Okay. So normalizing that, so we are looking at a number of about INR206 crores. Is there...

Sudipto Sil: As I mentioned a few minutes back, we had actually taken management overlay. The ECL model-driven provisioning requirement was still in very low numbers. But we had -- you can say deliberately, we had affected the management overlay portion over and above what was required in the ECL. And two, you can...

Moderator: Sir, the management's line has been disconnected. Let me reconnect them. Give me a moment, please. Ladies and gentlemen, thank you for patiently holding. The line for the management has been reconnected. Over to you, sir.

Tribhuwan Adhikari: Yes, Gaurav, where did we drop off?

Gaurav Jani: Sir, Sudipto sir was mentioning about the management overlay. So I just want to ask what was the quantum of management overlay that hit the P&L this quarter?

Sudipto Sil: Around INR150 crores, INR160 crores of management overlay. Total number -- because there were some releases also, totally, there were 2 accounts on which we had given management overlay additionally. That would be around, say, INR200 crores. This is the negative impact was around INR44 crores.

Gaurav Jani: Understood. So sir, just extending this, so just wanted to understand the normalized level of provisions, right, that could actually impact us over the next 1 year or so. So are we to understand that 20, 25 bps provision number is a normalized level? Or how should we look at it?

Sudipto Sil: I think that is, I mean, slightly on the higher side. We are looking at around 20 basis points on a steady-state basis.

Gaurav Jani: Sure, sure. So that answers. Secondly, sir, just if you could help me as to for Q4, what kind of a disbursement number are we targeting?

Sudipto Sil: For Q4, generally, the numbers have been, I would say, around INR20,000 crores to INR25,000 crores, we'll be looking at, all products put together.

Gaurav Jani: Okay. INR20,000 crores to INR25,000 crores for Q4?

Sudipto Sil: Correct.

Moderator: Ladies and gentlemen, we'll take the last question for today, which is from the line of Jigar Jani from B&K Securities.

Jigar Jani: Just one question on margin. So given that we have so many levers to increase margin, would it be fair to assume we'll be inching towards the upper end of our guidance of 2.7% to 2.9%. It will be much closer to 2.9% over the next couple of years?

Sudipto Sil: See, that actually depends on the asset mix and if the AUM for the affordable housing, the way we have projected it over a 3-year period. I think, the 3-year period of around closer to 8%, 9% of the book or 10% of the book, if we are able to achieve, then certainly we can look at margin improvement by around 15 to 20 basis points. But that is not going to happen in 1 year. That will take about a 2 to 3 year period.

Jigar Jani: And sir, this accounts for any rate cut impact that probably will have...?

Sudipto Sil: Rate cut is something, which will certainly have an impact at the inflection point, but we understand that if there is a rate cut then and followed by, I would say, reasonable infusion of liquidity, then I will get some positive impact of it on the borrowing side as well.

Jigar Jani: Okay. Okay. So 15 to 20 bps over a 3 year period is what we -- just on the mix change.

Sudipto Sil: Yes, it's quite reasonable kind of an expectation.

Jigar Jani: Understood. And sir, on disbursement guidance for next year, any guidance for disbursement for next year?

Sudipto Sil: Disbursement guidance, generally around 10% to 15% growth we are expecting in the next year.

Moderator: As that was the last question, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Tribhuwan Adhikari: Yes. Thank you, friends. This year was a year of consolidation for LIC Housing Finance after a series of structural changes made last year. Focus area for this year was an active resolution of nonperforming loans where we made good progress. The asset quality has been improving quarter-by-quarter. We are quite positive on a further improvement in the asset quality in Q4 of the financial year. On the business front, some ground needs to be covered.

For example, in the affordable piece, we have just ventured into it, and we need to strengthen it, build it further, and that we are in the process of doing so and looking forward to this business contributing significantly over a 2 to 3 year period. Despite tight liquidity conditions, we have maintained the margins during the quarter flattish from Q2.

By the end of Q3, we expect some improvement in the margins because of slight -- the 10 basis point PLR hike, which we have taken. We look forward to your continued support for a very good Q4 to close the year. Thank you, and thank you so much.

Moderator: Thank you. Members of the management, ladies and gentlemen, on behalf of Axis Capital, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.