Repco Home Finance

REPCO HOME FINANCE LIMITED.
(Promoted by REPCO Bank - Govt of India Enterprise)
CIN : L65922TN2000PLC044655

RHFL/SE/30/2023-24 **14th August, 2023**

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai-400001
BSE Security Code: 535322
Kind Attn: Listing Department

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai- 400051
NSE Symbol: REPCOHOME

Dear Sir/Madam,

Sub: Transcript of Analyst/Investor Conference Call held on 8th August, 2023

Ref: Our letter No. Our letter No. RHFL/SE/24/2023-24 dated 3rd August, 2023
and Our letter No. RHFL/SE/29/2023-24 dated 8th August, 2023

In continuation to our above referred letters, please find attached the Transcript of Analyst/ Investor conference call/earnings call held on 8th August, 2023.

The aforesaid Transcript will also be made available on the Company's website www.repcohome.com.

This intimation is submitted pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

This is submitted for your information and records.

Thanking You,
Yours Faithfully,
For Repco Home Finance Limited

ANKUSH TIWARI

Digitally signed by ANKUSH TIWARI
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Ankush Tiwari
Company Secretary & Chief Compliance Officer

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"Repco Home Finance Limited Q1 FY24 Earnings Conference Call"

August 08, 2023

MANAGEMENT:	**MR. K. SWAMINATHAN – MD & CEO** **MR. T. KARUNAKARAN – CHIEF OPERATING OFFICER** **MS. K. LAKSHMI – CHIEF FINANCIAL OFFICER** **MR. N. BALASUBRAMANIAM – CHIEF DEVELOPMENT OFFICER**
MODERATOR:	**MR. RAJIV MEHTA – YES SECURITIES (INDIA) LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Repco Home Finance hosted by YES Securities.

As a reminder, all participants' 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajiv Mehta from Yes Securities. Over to you, sir.

Rajiv Mehta: Thanks Jacob, Good evening all. Welcome to Q1 FY24 Earnings Call of Repco Home Finance. Firstly, we thank the management for giving us this opportunity. We have the top management team along with us. Mr. K. Swaminathan – Managing Director & CEO; Mr. T. Karunakaran – Chief Operating Officer; Mr. N. Balasubramaniam – Chief Development Officer; and Ms. K. Lakshmi – Chief Financial Officer.

Now, I would like to hand over the call to Mr. Swaminathan for his opening remarks on Company's performance and the outlook. Post this, we will open the floor for questions. Over to you, Mr. Swaminathan.

K. Swaminathan: Thanks Mr. Rajiv Mehta, Thanks Mr. Jacob. We would like to welcome all to this Earnings Call for the 1st Quarter of 2023-24. We are happy to announce that we are on the right track to continue the momentum of the previous quarters.

The Company is steadily progressing on its business parameters and is confident of meeting its guideline numbers. The Company is in the process of making structural changes in the organization, the results of which will become visible in the coming quarters.

As regards business updates, we were able to achieve a disbursement of Rs. 684 crores against Rs. 642 crores of Q1 FY23, registering a growth of 7%. Our sanctions stood at Rs. 726 crores as compared to Rs. 691 crores of Q1 FY23, recording a YoY growth of 5%. It is worthwhile to note that the sanction and disbursements in Q1 of last year included a DA pool purchase of Rs. 70 crores while there was no such pool purchase in Q1 of FY24. Our AUM stands at Rs. 12,655 crores, increased by around 2% QoQ from the previous quarter of Rs. 12,449 crores. The ratio of exposure between non-salaried and salaried segments stood at 51.8% and 48.2% respectively. The share of non-housing loans, i.e., home equity stood at about 23.1% of the loan book and housing loans contributed about 76.9% of the book.

We were able to reduce the GNPA from Rs. 719 crores to Rs. 695 crores which is 5.5% of the AUM and the net NPA stood at Rs. 338 crores at 2.8%. We have a total provision of Rs. 524 crores with a provision coverage ratio of 51.4% for the Stage-III assets. As of June 30, 2023, we hold Rs. 600 crores of restructured portfolio of which approximately Rs. 200 crores is in Stage-III. Our NIM for Q1 FY24 was at 5.1% as against 4.6% in Q1 FY23. We have been able to successfully transfer the increase in our borrowing cost and also improve our margins. We continue to operate at a spread of 3.3%. Our average yield on incremental loan sanctioned rose to 11.56% in Q1 as compared to 11.08% in the previous quarter. The profits grew 8.5% QoQ and 43.5% YoY amounting to Rs. 89 crores as against Rs. 82 crores in Q4 FY23 and Rs. 62 crores in Q1 FY23. Our ROA and ROE improved to 2.8% and 15.8% respectively in Q1 FY24 as against respective figures for Q4 at 2.7% and 14.4%.

During Q1 FY24, we were a little aggressive in recovery actions, and more than 1,340 SARFAESI notices have been issued during the last quarter. Similarly, we are also happy to announce that the Company has implemented a salary revision of all the staff members with effort from January 2023. These 2 measures might have contributed to a little increase in our total cost, but we are confident that the pay package as well as the recovery efforts will give a good result for the Company in the coming quarters. We also expect a drop in our attrition ratios.

New Software:

As indicated in our previous meet, the new software package is already in place in all the outlets. Besides, mobile applications under phase I of the project is on the verge of completion and shall be rolled out immediately post performing a security check. Certain add-on functions to this particular rollout, mainly to facilitate decision making in head office, would be implemented in the coming months.

Branch network:

As of June 30, 2023, we have 193 touch points across 12 states and 1 UT comprising of 159 branches and 34 satellite centers with additional 2 asset recovery branches. In the month of July '23, i.e., in the current quarter, we have already upgraded 7 of our satellite centers. We will also be opening 3 more satellite centers this quarter. By the year-end, we will be having more than 200 outlets.

To summarize:

The key financial highlights for the quarter are the loan book standing at Rs. 12,655 crores, registering 7% year-on-year growth, PAT at Rs. 89 crores, ROA and ROE at 2.8% and 15.8% respectively. The core profitability has remained strong with a solid spread and margin of 3.3% and 5.1% respectively. The gross NPA stood at 5.5% with the coverage of 51.4%. Net NPA is at 2.8%. The way forward for FY24, we plan to stick to our guidance numbers of 20% growth in sanctions and disbursements and 12% AUM growth from FY23. The GNPA numbers are planned to be brought by at least Rs. 100 crores out of which we have already reduced Rs. 24 crores.

Thank you very much for this opportunity, we are open to questions by all the people here.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Amish Thakkar from Siguler Guff India Advisers Private Limited. Please go ahead.

Amish Thakkar: I just wanted to get some clarity on your disbursement growth. Any guidance on the full year and by when do you expect to get to about thousand crores per quarter? And if you can just break it down by any addition of new branches that you are planning going ahead and break it down by state also because AUM growth in your home market is in single digits while a couple of other markets are growing at double digits. At the same time, Gujarat has been negative. What's the issue in Gujarat? Scaling down that portfolio? If you can just give us a broad perspective high level on each market, how do you look at them?

K. Swaminathan: If you exclude that Rs. 70 crores of DA book which we did last quarter, i.e., year on year, I think we have grown by around 20% as far as disbursements are concerned. That's why we plan to maintain the same as far as disbursement numbers are concerned. Going forward, especially the 1st Quarter is normally a lean quarter; despite that, we have grown 20% year on year. In the current year also, we are planning to increase the total disbursement number from around Rs. 3,000 crores last year to around Rs. 3,600 crores this current year. We are on track. We are confident that we will be able to achieve the numbers as far as disbursement numbers are concerned.

As regards AUM, I think we were around Rs. 12,400 crores in the beginning of the year. We plan to reach somewhere around Rs. 14,000 crores by the current year-end. That is our plan of action. Hopefully, when the momentum happens, especially the second and third quarters are normally the peak quarters for the Company. During the second and third quarters when the increase or the momentum picks up, I think definitely the book growth also will be more than the 9% growth that we did in the 1st Quarter. Definitely I think we will be able to reach the number of around Rs. 14,000 crores. That is our plan of action for the year-end.

Amish Thakkar: Anything on branch expansion strategy going forward and what's happening in Tamil Nadu? Why the AUM growth there is 7% to 8% versus a double-digit growth in some other markets. How do you see the market in Tamil Nadu playing out where 56% of AUM is sitting there?

K. Swaminathan: Frankly, Tamil Nadu is doing well. Even despite the repayments, we are able to maintain the share of Tamil Nadu book which implies that it is also giving us new businesses. And I think I told in the previous call also, we are opening satellite centers in Tamil Nadu. Where we are opening these centers are mostly in Tier-2 or Tier-3 centers. We are opening in the form of satellite centers in Tamil Nadu, whereas in other places, we directly go for branch opening. Tamil Nadu is contributing a bulk of our business; more than 50% is being given by Tamil Nadu, and we plan to maintain that same ratio. As far as numbers are concerned, I told in the initial thing itself. We will be somewhere around 200+ by the year-end. Tamil Nadu itself we will be opening another 6 or 7 satellite offices before the year-end. And other places at least some 10 branches we will be opening other than Tamil Nadu. So, by the year-end, I think we should be somewhere around 200+ offices.

Amish Thakkar: You seem to be actively running down your portfolio in Gujarat. It stands at only 3% of your books. But have you stopped new disbursements completely there? And is it like the same issue that industry faced in the Surat region or is it something else there?

K. Swaminathan: Nothing of that sort. Comparatively, we are not all that popular in markets in the west compared to the south. That is why there is a slow pickup as far as markets like Gujarat as you are saying. We are positive; in fact, some of our branch expansions are in Gujarat only. Once the infrastructure including the human capital is in place, we will be opening branches in Gujarat. And we want more growth in Gujarat because that is a growth market for us.

Amish Thakkar: In this Rs. 14,000 crore target, are you factoring in any BT-outs that happen?

K. Swaminathan: What are the BT-outs as well as the normal rundowns have all been factored in our Rs. 14,000 crores which is a normal thing. To answer your question specifically on BT-outs, I am happy to announce that BT-outs are relatively less compared to BT-ins. There is a reversal in trend that we have noticed in the 1st Quarter. Hopefully, if this continues in the coming quarters also, I think we will be able to handle these BT outs, which was one of the problem areas of this Company in the last year.

Amish Thakkar: Any guidance on this portfolio purchase that we did in Q1 and Q4? Will that be continued in this financial year as well?

K. Swaminathan: Frankly, as an organization, we want to grow organically, let us be very clear. But when an opportunity comes as far as DA is concerned, definitely we will look into that option provided it is profitable and it gives us volumes.

Amish Thakkar: Okay, thanks a lot sir, and all the best.

K. Swaminathan: Thanks Mr. Thakkar.

Moderator: Thank you. The next question is from the line of Aniket Kulkarni from BMSPL Capital. Please go ahead.

Aniket Kulkarni: Thanks for the opportunity. During the initial commentary, you spoke about some structural changes which the Company is going through and you said the effects of which will be seen in the coming quarters. Can you just give some more detail on what are the sorts of changes which you are doing and how will it affect the business going forward?

K. Swaminathan: Thanks Mr. Kulkarni. This Company was not having any sort of verticalization in place in all these years. This sort of verticalization we have started doing. And in the last call also, we had told about a collection vertical that was implemented. In the current quarter, we have also started a sales vertical separately. Going forward, we will also be adding a credit vertical. The collection vertical is more or less stabilized, even though the results are yet to come in. Sales vertical is in process. It is just 1 month over. Going forward, I think the sales vertical also will be giving us more volumes. This is what normally we were talking. In addition to this, we have also done some structural changes as far as our software is concerned, which I mentioned in the opening remarks. All these are just brief. In each and every department, something or other is happening. But basically, some sort of a verticalization has started happening in this Company. And we are confident that this is going to give us results.

Aniket Kulkarni: thanks for the answer and best of luck sir.

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

Abhijit Tibrewal: Sir, if you could first give a data point. If I look at your disbursements, have you already shared the split of your disbursements between home loans and LAP?

K. Swaminathan: Home loan and home equity we have given.

Abhijit Tibrewal: Has that already been provided?

K. Swaminathan: Yes, I think it has already been provided. I can give you once more. We have given the percentage. I will give you the number. As far as home loan is concerned, it is Rs. 9,735 crores and home equity is Rs. 2,919 crores.

Abhijit Tibrewal: This is the split of your loan book, right?

K. Swaminathan: Yes, loan book.

Abhijit Tibrewal: No sir. I was asking actually about disbursements. For this quarter and maybe the last 2 quarters, if you could give the split of your disbursements between home loans and LAP - and home equity.

K. Swaminathan: Sorry, I do not have it readily available. I will see whether I can give you before the end of the call.

Abhijit Tibrewal: Sir, the other thing I was wanting to understand is while very clearly we have started to demonstrate some growth in your advances which is broadly around Rs. 12,650 crores now, what is a little worrisome here is if I look at home loans, home loans has grown by just about 2% year over year while your LAP book has grown by about 28% year over year. I understand the thing is that we have been through, but historically speaking also, LAP and self-employed segments have been a problem area for Repco. Even if I look at the gross NPA numbers that we share basis product segments, there also if you look at it in home equity and LAP, we had peak NPAs of about 10% almost about 7-8 quarters back, which is now at 7%. Why is it that we continue to do well in LAP there? We are not seeing a lot of BT-outs. As a matter of fact, our book has been growing, 28% is very strong growth while housing loans which are more safer, there we have just seen a 2% kind of a YoY growth.

K. Swaminathan: Mr. Abhijit, one clarification I would like to make. It is not exactly LAP book, it's what we call it as home equity. It is not that entire non-home loans are all LAP. The so-called home equity consists of 2 or 3 segments. One is of course the LAP which may be a major thing. The other thing is on a commercial, even a commercial real estate one. Second, let us say a home loan with 3 kitchens. We call it as home equity. All these come under home equity portion. And you may also be remembering recently RBI came up with a circular wherever some reimbursements happen, even in case of a home loan, it is not to be considered as a home loan. All these put together come under a non-home loan portfolio. So, even though technically speaking, these may be home loans, they are classified more from a supervisory point as non-home loans. That is why I'm saying as far as the non-home loan portfolio, I do not want to take it entirely as LAP book. Second, to your question, yes, LAP is giving me some margins and we are very clear, whatever be the portion, even in case of LAP, all our normal requirements like CIBIL score or the quality of the client, all these are taken into consideration before we sanction the loan. The entire risk parameters are all parameterized in our LLMS itself. So, all these are taken into consideration. Let us not have a view that all LAP books will be riskier. Of course, by nature, NPA percentage of home equity will be higher than a home loan. And second, in home loan, there is a stiff competition, compared to my home equity. So, my growth is also happening this way. And this particular quarter, it is more because of the change in the nomenclature due to supervisory thing; there is an increase in non-home loan portfolio.

To come to your thing, we have now got the disbursement – for the current quarter, it is Rs. 410 crores housing and Rs. 274 crores home equity. Previously, let us say in June 2020, it was Rs.

480 crores and Rs. 162 crores. And March '23, it is Rs. 555 crores and Rs. 280 crores. So, it is happening; always the housing portfolio is more than home equity portfolio. And I again repeat, it is not that all non-housing loan portfolios are LAP.

Abhijit Tibrewal: The thing that you explained, a sharp change in product mix that we are seeing in this quarter where the home equity portfolio has moved up from 20.7% to 23%, this is purely reclassification or the change in guidelines and nomenclature is what you talked about?

K. Swaminathan: It should be mostly because of that reason because we have taken all that. I do not have the exact number, but post the circular, we have reclassified all our reimbursement loans as home equity portfolio. Of course, there may be an increase in the home equity portfolio in the current quarter. I am not denying that. But it is mostly because of the reclassification.

Abhijit Tibrewal: Got it. And sir, the last question is how should we now look at the asset quality? Obviously, under your leadership, the asset quality has continued to improve. During your opening remarks, you also talked about that guidance where for the full year you talked about bringing down the NPAs by about Rs. 100 crores. Almost a quarter of that, you have already achieved. So, how should we look at asset quality going forward? You talked about initiating a lot of SARFAESI. So, how should we look at asset quality and also credit costs for the full year?

K. Swaminathan: As far as asset quality, whatever Rs. 100 crores we have given is relatively a conservative estimate. We want to be basically conservative as far as asset quality is concerned, mainly because of the restructured portfolio that is still there in our NPA as well as Stage-II number; it is because of this reason. But as I mentioned in the opening remarks and as you have mentioned, we are going slightly aggressive as far as recovery actions are concerned in our NPA portfolios, Stage-III portfolios. We are confident that all these efforts will bring the NPA numbers still down and we may even better our guidance as far as NPA numbers are concerned. We continue to monitor almost on a daily basis, on a monthly basis. Definitely, in my view, we will be in a position to monitor unless something drastically changes.

Abhijit Tibrewal: Got it sir, this is very useful. Thank you so much.

Moderator: Thank you. The next question is from the line of Anand Mundra from Soar Wealth. Please go ahead.

Anand Mundra: Sir, I wanted to check with you how do we plan to grow our business – by increasing the ticket size or increasing branch productivity or opening new branches? Because, when I was doing math, it looked like branch productivity is already very good.

K. Swaminathan: I have a slight different opinion, Mr. Mundra. There is still scope for improvement in productivity. That is where we are driving. Of course, we will be opening more branches. Those branches also will give us business, no doubt about it. But the verticalization that I was talking about, that is only for improving the productivity of our staff because some portion of our existing staff we are going to earmark exclusively for selling to our customers, approaching new customers. So, more and more customers we branch out and get it rather than walk-in customers. With all this, we want to improve the per-staff productivity or per-branch productivity. I think that will be the main source of our growth for the current year as well as for the coming years.

Anand Mundra: Sir, I visited a few branches. I realized that we don't work on the feet-on-street model. Is that correct? I visited branches in western India. I wanted to confirm that.

K. Swaminathan: At least to a certain extent, I can agree we were not feet-on-street model. But that is what we are changing now with almost all the branches having an exclusive sales staff. At least one person will be in the street throughout. And we are monitoring his or her performance on a daily basis how many new logins this particular segment is bringing us. This is in addition to the other verticals like DSA or walk-in models. The exclusive person who is earmarked for sales, he is supposed to bring in fresh business. That is the expectation. But that is still a process which has just started 1 month back. Going forward, maybe if you visit the same branches 2 or 3 quarters hence, I think you will see a change.

Anand Mundra: Yes, definitely sir. I saw a lot of changes and the staff were really motivated. I was just talking about the branch productivity. Sir, the second question which I had was what about the portfolio in Stage-II and Stage-I? Only a portion of zero to 30 days. So, zero to 30 and 30 to 60 and 60 to 90, what percentage of portfolio is there, sir?

K. Swaminathan: I agree with you, sir. Because of the software that this change is taking place, we are unable to zero in on the correct numbers as far as Stage-II and Stage-I are concerned. Definitely going forward, maybe in the next 1 or 2 quarters, we will be giving you the precise numbers because still there are some number issues. Definitely in the next 2 or 3 quarters, we will be able to give you the exact numbers in Stage-II.

Anand Mundra: Sir, one more question. What is the actual credit loss which we have actually suffered in the last 5-6 years? Whatever you can recollect.

K. Swaminathan: Here, I am just one year old. I don't have exactly. Anyhow, I will try to give you before the end of the call. Five years you are asking. At least, last year I can tell you – last year and the current year. This particular quarter, we did only around Rs. 5 crores – less than Rs. 5 crores credit cost. I think last year, we did around Rs. 25 crores, madam?

Anand Mundra: I am not talking about the provision, sir. I am talking about the actual credit loss which you have suffered because you have auctioned the property at a lesser value than the loan outstanding.

K. Swaminathan: That will be very less. Right from the inception of this Company, the actual write-off will be around Rs. 10 crores to Rs. 15 crores. Another Rs. 10 crores or Rs. 15 crores may be there, which we have to write-off; that may be there, net to net. This is throughout the history of the Company.

Anand Mundra: Okay, nice to know that. Sir, coming back to the first point, you are saying that we will be adding feet on street in every branch, at least 1 employee?

K. Swaminathan: Yes.

Anand Mundra: And that person will manage any outsourced DSA or he will source by himself?

K. Swaminathan: Our direction to that particular employee is other than DSA. This we call it as a direct channel, i.e., our employee channel. DSA channel should be different.

Anand Mundra: Thank you sir, thanks a lot.

K. Swaminathan: Thanks Anand.

Moderator: The next question is from the line of Aviral Jain from Siguler Guff. Please go ahead.

Aviral Jain: Thank you so much sir. Sir, I have 2 questions. One is, if you can quantify the BT-ins and BT-outs for the quarter and what has changed on ground so that you are attracting BT-ins that had been our constant ask from the previous management to focus on BT-ins and also reduce BT-outs. Where are you seeing these BT-ins? If you can quantify both these numbers. And consequently, is there a fundamental borrower profile change that you are observing given yields are improving and the market is still very competitive? Those are my 2 questions.

K. Swaminathan: As far as BT-ins are concerned, we got BT-in of Rs. 78 odd crores in the last quarter. BT-outs, it is relatively difficult to measure because we do not know what all are the exact BT-outs. But approximately we can say that it should be around Rs. 44 crores to Rs. 50 crores. I can say confidently that in the 1st Quarter, our BT-ins were more than BT-outs; to that extent, I can be confident. As far as borrower profile is concerned, at least in the last 1 or 2 quarters, we have not seen much of a change. Our existing borrower, our existing clientele remains the same. But going forward, if we are slightly aggressive in the salaried segment or in the documented segment, maybe our housing loan portion may slightly go up. The BT-ins are mostly from other housing finance companies whose interest rates are slightly higher. So, if we become slightly aggressive in our interest rates, maybe we will be seeing an increase in the home loan portfolio compared to the home equity portfolio.

Aviral Jain: And the BT-ins are a mix of both home equity and housing loans?

K. Swaminathan: Yes, because normally they come not only for taking over, but also for giving some add-ons. Normally, they come with an additional to the existing loan quantum. That is also being given by us. Only for that reason, they are coming. That is in addition to the interest rates. Second, as we are also tracking the movement of our customers, wherever we are seeing an indication that some of our customers may move out, we try to contact them and see whether BT-outs can be prevented.

Aviral Jain: So, there is a central monitoring team which is checking CIBIL hits and other hits on your existing borrowers? Are you putting something like that in motion at a branch level or at the central level?

K. Swaminathan: At the head office level, we are monitoring through our links with the central agencies like CIBIL who give us reports about the likelihood of our customer moving out. We try to contact them so that we prevent such BT-outs.

Aviral Jain: Is the average yield on the BT-ins higher than the overall portfolio, like-for-like product, or that is in line with your overall book?

K. Swaminathan: BT-ins if it is higher, they do not move in. Naturally they will come to me only if there is some concession or some reduction to them. So, it will be in line. Of course, we do not sacrifice. Just because of BT-ins, we do not reduce our normal interest rate. If it is favorable and if it is competitive to them compared to their existing portfolio, they move here.

Aviral Jain: Let me ask you this question differently, sir. We have seen a tremendous growth in affordable housing finance companies like Aptus or Aavas or Aadhar or HFFC. They have much higher yield. Their average yield is roaming around 13.5% to 14%. And even for Aptus, it's much higher. And they are showing pristine asset quality. So, is that a big hunting ground that Repco could target, where seasoned borrowers you can actually attract at 11% to 11.5% sort of borrowing rate?

K. Swaminathan: Mr. Aviral, we don't target any specific Company or specific things. People come based on our rates. Maybe word of mouth publicity goes. They see what is our interest rates and all. Our people when they move out, they find out what is our interest rate. Such things come in, in the natural fashion. It is not because of any aggressive posture to any particular Company or sector. This sort of BT-ins move out mainly because of our interest rate vis-a-vis the competitors.

Aviral Jain: I completely agree with you. With this verticalization of sales, there could be a situation where you will have a lot more focus and a lot more effort by your team on ground, the direct channel, who would want to bring in cases. It could be a fresh loan applicant or it could be an existing borrower to some other housing finance Company. So, we should be seeing some healthy traction here right given the verticalization that you talked about?

K. Swaminathan: Definitely. That is one thing that may happen in future. Of course, I would like to repeat, as far as the sales vertical is concerned, it is still in a nascent stage. We need to train them, we need to tell them how it has to happen and all that. Maybe 1 or 2 quarters down the line, the sales vertical will bring in enough business to us, which will save on cost as well.

Aviral Jain: And curiously, how were leads being generated earlier? It was people walking into a branch and there was no outreach as such?

K. Swaminathan: There were outreach, but it was more informal. Now we are standardizing these so-called outreach. Earlier, if you recall, some years back, we used to have some sort of credit camps. But these credit camps are no more happening. It is not popular everywhere because of the competition that is there. Slowly, it was more of – especially in the south – our popularity, our brand value itself was bringing in business. But now that competition is becoming intense, we need to go for outreach. So, that is what we have done this. Earlier, let us say 1 year or 2 years back, not only our outreach, not only our publicity or our brand, some sort of an informal things from our existing customers also brought in new business. But now we want to be more nearer to the prospective customer. I think this sales vertical is going to help us in that fashion.

Aviral Jain: Sir, aspirationally 2 years down the line, would you aspire to outgrow the 20% target that is just for this year in terms of the organic disbursement growth given so many building blocks have been put in place?

K. Swaminathan: Who will say no? Of course, I have to grow. More than 20%, I will be too happy. Definitely. Once I see the momentum, I think we will be resetting our own hurdle.

Aviral Jain: That's good to know sir, thanks so much.

K. Swaminathan: Thanks Aviral.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital Private Limited. Please go ahead.

Sarvesh Gupta: Good evening sir! Sir, this change in the mix in favor of home equity has been very sharp – from 20.7% to 23.1%. You mentioned that a part of it might be due to some changes in the classification norms, which would have happened during this quarter. What is that, sir, that is an important input number that we would want to know.

K. Swaminathan: Sarvesh, we do not actually target for non-home loans. Whatever is coming, we take. It is not that the growth is happening only in the non-home loan segment. One, of course, as you yourself mentioned, it is because of some reclassification has happened. But some of the home loans also, we ourselves have classified. As I was telling, it will be a pure housing loan. But when we notice that there are more than 2 kitchens or it may be a place where he will be building a house; in addition, he will also be constructing a small shop in front of his house. Such things we classify under home equity. These are all the reasons why this home equity portion has gone up. There is nothing, and I want to assure you that we are basically a home loan Company. And you will also be knowing that we can go even up to 40% of non-home loan portfolio; we are only around 23%. So, we are very much within the supervisory norm and we are not actually aggressive. I do not want to have any such notion that we are slightly aggressive in non-home loan portfolio. No, it is happening; whatever is coming to our thing, we take. And this classification, especially in the new software, we are very very clear – unless it is a pure home loan, we cannot classify under any other category. All these are coming into the picture. Only because of this sort of a reclassification, there is an increase in the home equity portfolio. Otherwise, we are a pure housing loan Company and we will continue to be a major housing loan Company.

Sarvesh Gupta: Understood, sir. But I would still prefer to get that number. Maybe after the call, it can be shared offline. Second is, if I look at your employee cost on a YoY basis and QoQ basis, it is up 17% and 0% and the numbers are up only 2%. Does it mean that on an average, 15% inflation in salary has happened from last year to this year?

K. Swaminathan: I told in the initial phase also, we did a revision in salary with effect from January 2023. In fact, we paid out to the employees during this 1st Quarter, i.e., we paid in June – along with the arrears and all, we have paid. This is one of the major reasons why there has been an increase in the thing. And you should also factor that there has been an increase in the cost of living over a period. That has also been factored. All these we are hopeful, 1) The productivity of staff should increase based on this because we are also going to ask our staff members. 2) There was an attrition of around 18% last year. We are quite confident that with the revision in salary, this attrition number will definitely come down and we will have more people who are well trained in our Company, who will be there in the Company and this will give us better productivity. That too when we are going for verticalization and all, it will help us because the trained staff will be in the street. That will help us in increasing the numbers. Despite all that, we are also keeping an eye on the cost-to-income ratio. It is somewhat under control. Going forward also, it will be the same thing. And we do not expect any major increase in the coming quarters because already these things have been factored. The establishment cost is increasing by around Rs. 1 crore per month, which has already been factored by us. And we are confident that our increasing income will take into account this establishment cost increase.

Sarvesh Gupta: The NIM percentage has also gone up relative to the earlier levels. What's the sort of the levels that we want to maintain? If we are going to be very aggressive on the non-home loan segment, then maybe NIMs can be maintained, but then, you might see more gross NPAs stress building up later on. How are you thinking about the NIMs as such?

K. Swaminathan: I would like to repeat, we do not want to be aggressive in any one segment, leave alone non-housing loan segment. We want to be as, like what we were, as far as book growth is concerned. Both home loans and home equity should grow in tandem. This is our expectation; we want to do the same thing. Maybe in the 1st Quarter, you will have seen some increase in this. One thing we want to be very clear; whatever is the cost increase, we want to pass it on. We do not want to bear the cost increase. That is one thing that we are conscious of. Otherwise, I think going forward, it will be the same. We have given a guidance of around 4.7% or 4.8% of NIM. Even though in the 1st Quarter, NIM is slightly more than our guidance, I think it will stabilize around 4.7% to 4.8% by year-end. Once we increase our home loan portfolio, especially to the salaried segment, which is slightly competitive, where I have to give some concessions to get the customer.

Sarvesh Gupta: And finally, on the credit cost. I think this has gone down a lot, maybe because of the reduction in the gross NPA numbers. Maybe in case you are targeting another Rs. 100 crores decrease this year, then they will continue to be subdued. But what is the sort of realistic steady state number in terms of the credit cost that you are looking at?

K. Swaminathan: We have given Rs. 25 crores for the current year. We would like to maintain that. We do not want to increase.

Sarvesh Gupta: This year is fine, sir, because this still is coming down from a higher base. But then, maybe going 2-3 years down the line, how are you looking at the credit cost given the kind of profile that you are lending at?

K. Swaminathan: We are monitoring. Let us be very clear, sir. We are monitoring whatever the loans we are giving. The early mortality or the early overdues and all are getting monitored. So, comparatively, we are confident that we will be able to maintain the same level of GNPA and NPA number or the trajectory will be downward shifting going forward. And we are confident that going forward too, these credit cost numbers will be maintained or it can even be reduced.

Sarvesh Gupta: Understood sir, thank you and all the best.

K. Swaminathan: Thanks Sarvesh.

Moderator: The next question is from the line of Rajagopal Ramanathan from Sada Khush. Please go ahead.

Rajagopal Ramanathan: A few questions. A couple of them are data specific. One is, do you have a stock or a quantum of loans that have been written-off completely but you hope to expect to recover over the next, say 24 months or so? That is the first one. The second one relates to direct assignments wherein you have indicated numbers for Q1 FY23 and Q4 FY23. I presume some DAs which were probably on-boarded in Q1 FY23 and the balance which was outstanding in Q4 FY23. But you have not stated what is that quantum in Q1 FY24. So, I believe that either suggests that direct assignments are completely repaid or you have got to indicate what that is so that you can make an appropriate comparison. Apart from that, a couple of other questions relate to any specific reasons why you are being so conservative with respect to growth? Because, as one of the other analysts pointed out, you have a lot of other housing finance companies which are comfortably able to achieve 20% plus growth in their entire loan book, and we are wanting to sort of constrain ourselves at the levels of around 12% to 15%. Is there any specific management thought behind that? And lastly, if you do prefer to be so conservative, then what is the rationale in having a capital adequacy of 36% then? Because, you will never be in a position to sweat your capital if you are going to be operating at such a growth rate. Shouldn't you, therefore, be distributing more dividends? Because, clearly if you look at payouts, your payouts are very limited and therefore it actually calls for you to increase your payout to improve capital productivity.

K. Swaminathan: As far as write-off is concerned, I think we have answered earlier. Throughout the history of the Company, we would have written off maybe Rs. 10 crores to Rs. 15 crores, not much, as far as written off is concerned. Today, maybe in the technical write-off book, we will be having around Rs. 14 crores to Rs. 15 crores of assets which we have already sold but still something is outstanding. But these have been technically written off. We are also seeing whether some strategy can be worked out to recover even this amount. This is first. As far as direct assignment is concerned, I think we want to be very clear we had put Rs. 70 crores or Rs. 66 crores of direct assignment within the disbursement of Q1 of last year as well as Q4 of last year. In Q1 of 2023-24, we did not do any direct assignment, which means in the disbursement portfolio, there is no DA. As far as book is concerned, yes, whatever we have already sourced, that will still remain. To your specific question, we can say that it is around Rs. 112 crores. It is still lying in our book. Out of this Rs. 12,655 crores, there is around Rs. 112 crores which is a DA book that is still prevailing, but during the 1st Quarter, we did not do any DA transaction. That's what I want to be very clear. AUM book, Mr. Rajagopal, I think maybe you are a new investor. This Company it was somewhat negative. If you remember, for 2 or 3 years, continuously we were somewhat negative or we were not growing. From 2023-24, we wanted to be conservative, mainly because we wanted to change the curve. From a negative percent, we wanted to do something different. That is why we have given a thing of 12%. Maybe going forward, when we see the momentum, definitely in the next year, you will see that our growth rate also will be on par with the industry. But one thing you should also understand is we are now a 23-year-old Company. Naturally, normal repayments itself will be there compared to some of our other people who are relatively new. That is also to be factored in as far as AUM growth is concerned. That is the only thing. As far as capital, yes, we want to use as much as possible. You will be seeing the change in the coming years. Let us be very clear this Company is making a slow turnaround. I think we need to be a little patient. This is, as an MD, I am requesting you investors; please be a little patient. You will be seeing the results definitely in the coming years.

Rajagopal Ramanathan: Sir, I have actually looked at the last 10 years in terms of repayments as a percentage of your opening loan book. And it has tended to average anywhere between 15% to 20% of the opening loan book. If I were to look at this stat, it tells me that irrespective of whatever era or whatever management has been or whatever sort of cycles the Company has undergone, this number has not changed much whereas what seems to have happened is the disbursement growth which happened between, say 2013 and 2016, which was significantly higher, anywhere between say 25% plus, that seems to have completely collapsed. And now you seem to be trying to sort of bend this curve. What I am essentially saying is the home loan business is a capital efficient business, and if you are actually going to be very very conservative with respect to the growth, you will only be sort of making yourself more overcapitalized in the process. Why I say this is if you look at your valuations, and I am not necessarily saying you should be compared with any other housing finance Company, but even for you to command a book value multiple, investors have to be able to see that capital productivity improves or your growth needs to sort of meaningfully move up. My point is, I am not dissatisfied with what you are doing, but I am saying that this is one area where you need to start working on, because there is no point in hoarding capital when you are not expecting to utilize it in a foreseeable period. That’s my limited observation.

K. Swaminathan: Thanks for your observation, sir. You will be seeing the working. As far as valuation is concerned, you will agree that the valuation is not in my hands. It is in your hands.

Rajagopal Ramanathan: No, sir. That is actually completely in your hands. Because, if you decide to pay out dividends, there is no reason why equity holders are going to complain. Please try to understand. Tomorrow when you need capital for growth, equity shareholders will give you capital for growth if you are able to make your capital productive. It is not in our hands. It is completely in the Company’s hands.

K. Swaminathan: I do not want to get into any war of words with you. I fully appreciate, I am very very happy that you have analyzed very well. Definitely you will be seeing an increase in the dividend payout. But dividend payout alone is not one of the valuation criteria. I think you will agree for that. Not only that, Mr. Rajagopal, you will be seeing going forward, there will be an increase in numbers. There will be more utilization of capital that will be seen. Once the growth picks up, we will also see an increase in the capital growth. Dividend is one part of it. Effective utilization of capital is second. You will also be seeing definitely when I borrow more and when I spend more all this. When the book increases, definitely this capital adequacy also will come into picture.

Rajagopal Ramanathan: I wish you all the best, sir. But please don’t misunderstand what I have tried to put forth here. Because, when you have excess capital within the system, it also creates a false sense of security saying that how does it matter? I have all the capital, I can do whatever I want. It is just to ensure that the Company does not take capital lightly and ensures that it works towards making it more productive. That’s my limited point.

Moderator: The next question is from the line of Akash Jain from MoneyCurves Analytics. Please go ahead.

Akash Jain: I think the Company obviously has come a long way in the last 1 year under your leadership and I think numbers are there to see. I have a couple of questions, sir. One is, I think last quarter there was this discussion around Stage-II where you said that clearly the focus for the last 1 year has been on GNPA and I think successfully the GNPA has been controlled. But I think you also mentioned that your focus will now move to Stage-II because Stage-II looks a high number and we have to get the collection process in place to bring Stage-II under control. I just wanted to understand from you where are we in terms of our strategy for controlling Stage-II? I understand you are not able to give breakup between Stage-I and Stage-II this time. But from a strategic point of view, where are we from a focus perspective on Stage-II?

K. Swaminathan: As you have said, yes, we are now focusing more on Stage-II. In fact, more than even Stage-III, we are focusing more on Stage-II. And the collection vertical is more or less getting stabilized. As of now, we have 85 people exclusively on collection; 120 branches being covered under Stage-II. On a daily basis, this we are monitoring. Of course, we are unable to give you the specific numbers because of the change in the software. Going forward, we will be able to give you even specific numbers on Stage-II. We are slightly aggressive on Stage-II. We have been conveying to the branches also on early mortality, bringing down the numbers, following up on cheque returns, and so on. And I am confident that in the next 2 or 3 quarters, the Stage-II numbers will be less than 10%, which is our guidance. We are confident that we should be in a position to bring down Stage-II to less than 10%.

Akash Jain: Sir, the other question is on slippages. Clearly, the number on provision is very low. So, I am assuming there is not too much of slippage into Stage-III, but can you just give us some number in terms of what was the slippage for this quarter and what was the recovery?

K. Swaminathan: Slippage actually was Rs. 56 crores but we could recover around Rs. 80 crores this quarter. So, net there is a reduction of Rs. 24 crores. Since we are monitoring almost on a daily basis, going forward too, we expect the numbers to come down. To that extent, there will be a release in our provisions, which will help us in containing the provision requirements.

Akash Jain: Is it fair to assume that most of the slippage has come from the restructured book or is it Stage-II non-restructured book slippage as well?

K. Swaminathan: Yes, you are perfectly right, sir. Most of the slippages out of these Rs. 56 crores, nearly 50% is from the restructured book. This may continue also because there is still around Rs. 150 crores to Rs. 200 crores in Stage-II as far as this restructured book is concerned, but they are slipping in a slow fashion. But I am also glad to inform you that we are also recovering from the restructured book even in Stage-III. Though some Rs. 25 crores to Rs. 30 crores would have slipped in the 1st Quarter, we have also recovered a similar quantum from the restructured book even in Stage-III. To that extent, we are confident that this will remain.

Akash Jain: One last question. Like you said, there is a very strong legal process that we have started on SARFAESI. Can you give us a sense of what is the timeline typically? For example, if you initiate a SARFAESI process, then some people may pay up or you may have to take possession and sell the property and recover. Given the fact that we have already provided 50% of our coverages on GNPA and given the way real estate prices have gone, my sense is that when recovery happens, we will probably recover significantly more than what we have provided. So, there will be probably writebacks, if I am not mistaken. Just give us a sense whether there will be writebacks if my understanding is right and just a broad timeline perspective on when does recoveries start flowing in from the time we start the SARFAESI process.

K. Swaminathan: Technically, within 6 months, the entire SARFAESI process should be over. This is normal norm. But you will understand that it is more a threat which is given to the customer, which helps us in recovery. So, once a SARFAESI notice is issued or a possession notice is issued or even an auction notice is issued, we do not expect that it will succeed, then only we will recover. It is more from a threat that the customer comes to us, he talks, he comes with some OTS solutions and all that. I think more than the actual SARFAESI, it is the threat that we are giving to the customer which brings us recoveries. That is how it will speed up. It is not from pure SARFAESI action. Pure SARFAESI action, okay; maybe some Rs. 20 crores to Rs. 30 crores every quarter we may get, but it is more from the threat of SARFAESI notice that people come to us for discussion and we get recoveries.

Akash Jain: And do you expect writebacks to come? Because, we have obviously provided 50% and definitely all these resolutions will end up being significantly higher recoveries than what we have provided for, if my understanding is right.

K. Swaminathan: Yes, definitely some writebacks will come. But that writebacks, we have not factored in the current year, again, being conservative.

Akash Jain: Eventually, given the fact that so much of provisions have happened in the last 2 years and continuing to happen because of the restructured book, etc., over the next maybe 1 year or 2 years, we will see significant recoveries and writebacks. That is at least possible, or my assumption is right in that case? Because, resolutions are going to happen in the next 12 to 18 months, right?

K. Swaminathan: It is possible, Mr. Akash. But I do not want to give you any specific numbers; it is possible. Because, as you say, since we are providing more, that gives us a definite cushion for the future.

Akash Jain: Okay, thank you so much sir.

K. Swaminathan: One small thing, before I go to the next question. As far as this home equity portion is concerned, it is a mixture, as I was telling. The LAP book is only 24%. Then, there is a CRE residential; that is around 11%. There is some commercial construction that is also happening; that is around 2%. So, the entire book is not LAP. LAP is only around 34%. Just for clarification, I think one of the analysts asked for it.

Moderator: The next question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza: Sir, how many branches are we looking to add in FY24 and FY25?

K. Swaminathan: FY25, we do not have the numbers. FY24, I can tell you. FY24, already we have opened 4 centers. I will not say branches, I will say outlets. Four outlets we have already done. Three more we will be doing this quarter. Another eight, we have already got the approval from the board. And maybe some more also we may do; another five to six we may do. So, at the end of the year, definitely we will be 200+.

Rishikesh Oza: Also, I missed the number on credit cost. What credit cost are we guiding for FY24?

K. Swaminathan: Rs. 25 crores.

Rishikesh Oza: And the same Rs. 25 crores we are saying for FY25 also more or less, right?

K. Swaminathan: FY25 is slightly far away. FY25, we have not so far given any guidance.

Rishikesh Oza: But we expect the credit cost to be benign in FY25 too?

K. Swaminathan: Should be, Mr. Rishikesh. I do not want to give a guess, but should be or even less. If we go, as per our trajectory, I think it should be even less.

Rishikesh Oza: Okay, got it. Thank you sir.

K. Swaminathan: Thank you sir.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

K. Swaminathan: I think we have covered all the areas. I thank all the people who were in the conference call; I thank everybody. I thank specifically YES Securities for arranging this conference call.

Moderator: Thank you. On behalf of YES Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.