Repco Home Finance

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

RHFL/SE/57/2023-24 **16th November, 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 10th November, 2023

Ref: Our letter No.RHFL/SE/49/2023-24 dated 4th November, 2023 and Our letter No.RHFL/SE/56/2023-24 dated 10th November, 2023

In continuation to our above referred letters, please find attached the Transcript of Analyst/ Investor conference call/earnings call held on 10th November, 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
Date: 2023.11.16 12:23:39 +05'30'

Ankush Tiwari
Company Secretary & Chief Compliance Officer

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"Repco Home Finance Limited Q2 FY2024 Earnings Conference Call"

November 10, 2023

ANALYST: **MR. SANKET CHHEDA– DAM CAPITAL ADVISORS LIMITED**

MANAGEMENT: **MR. K. SWAMINATHAN – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – REPCO HOME FINANCE LIMITED**
MR. T KARUNAKARAN – CHIEF OPERATING OFFICER – REPCO HOME FINANCE LIMITED
MS. K LAKSHMI – CHIEF FINANCIAL OFFICER – REPCO HOME FINANCE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Repco Home Finance Q2 FY2024 earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanket Chheda from DAM Capital Advisors Limited. Thank you and over to you Sir!

Sanket Chheda: Good afternoon all. Welcome to the Q2 FY2024 earnings call of Repco Home Finance Limited. We have the entire senior management team with us. Mr. K. Swaminathan – MD & CEO, Mr. T Karunakaran - Chief Operating Officer, and Ms. K Lakshmi – Chief Financial Officer. Without much further ado, I would like to request Mr. K Swaminathan for his opening remarks and post which we can take the question and answer session. Over to you Sir.

K Swaminathan: Thanks Mr. Sanket of DAM Capital. On Behalf of Repco Home Finance Limited we would like to welcome all to this earnings call for the quarter ended September 30, 2023. I wish you all a very Happy Diwali. Thank you all for joining us, especially during the festive season today. We are happy to announce that the growth momentum seen in the last quarters has continued in Q2 FY2024 as well. The company is progressing on its business parameters and is positive of meeting its guideline numbers. The structural changes that have been processed across the organization, which we also mentioned in our previous earnings calls like delegation of powers, implementation of new IT software, etc are beginning to yield results and we are confident that we would be able to see the combined effect of all these changes in the coming quarters. We were able to achieve disbursements of 797 Crores as again 746 Cores of Q2 FY2023, registering a growth of 7% Y-o-Y. Our sanctions stood at 860 Crores as compared to 830 Crores last year recording a Y-o-Y growth of 4%. Our AUM stands at 12,922 Crores, an increase by around 7%. The ratio of exposure between non-salaried segment and salaried segment, stood at 51% and 49% respectively. The share of housing loan is 76% of the book and that of home equity is at 24%. During the quarter, we were able to reduce the GNPA significantly from 695 Crores to 637 Crores which is 4.9% of the AUM and the net NPA stood at 272 Crores at 2.2%. GNPA numbers have come down by Rs.150 Crores approximately Y-o-Y, that too organically. We have a total provision of 526 Crores with the provision coverage ratio of 57.4% exclusively for stage three assets. Our systematic and relentless action on NPA accounts is proving fruitful and would continue. As of September 30, 2023, we hold 573 Crores of restructured portfolio outstanding, of which approximately 183 Cores are in stage three and the remaining are in stage one and two. Profitability parameters, our NIM for Q2 FY2024 improved to 5.4% from 4.9% in Q2 FY2023 and 5.1% in Q1 FY2024. We have been able to successfully transfer the increase in our borrowing costs and also improve our margins. With a spread of 3.4% our average yield on loans sanction rose to 11.8% in Q2 FY2024 as compared to 11.6% in Q1 FY2024. The net profit grew 10% sequentially and 38% Y-o-Y and amounted to 98 Crores as against 89 Crores in Q1 and 71 Crores last year. Our ROA and ROE improved to 3.1% and 16.1% respectively in Q2 FY2024 as against the figures for Q1 at 2.8% and 15.8%. We are gladly informing that the company has achieved these numbers despite the increase in establishment cost due to salary revision and increase in legal costs due to increased recovery efforts. As regards to IT, bulk of phase one of project one comprising of LLMS, LOS and EGL are completely integrated across branches and almost stabilized. A few more applications will get completed shortly under phase one. The company has started preliminary work in implementation of phase two applications covering HR, audit etc and the entire phase two of the project comprising of department specific applications is expected to be completed by first half of next year. A total of approximately 20 Crores have been spent so far for the new software. Branch network, as of September 30, 2023, we have 199 touch points across 12 states and one union territory, comprising of 166 branches and 33 satellite centers with additional two asset recovery branches. During the first half of the year, we have upgraded seven SAT centers into branches and have also opened seven new SAT centers. Our board has also approved opening up eight new branches, upgradation of one SAT center into branch and opening up four new SAT centers. The company is on track on its profitability and GNPA figures. We had planned a reduction of 100 Crores in GNPA for the entire financial year against which we have already reduced 82 Crores in a span of six months. Our profit guidance was 350 Crores for the whole year and we have achieved 187 Crores in the first half. In the remaining two quarters, our focus would be on taking the growth numbers to the next level and we are quite positive on this.

To summarize I will summarize the key financial highlights for the quarter before opening the floor. The loan book stood at 12,922 Crores, registering about 7% Y-o-Y growth. PAT for the year surged 38% to 98 Crores Y-o-Y. ROA and ROE stood at 3.1% and 16.1% respectively. The core profitability has remained strong with a solid spread and margin of 3.4% and 5.4% respectively. The gross NPA has shrunk to 4.9% with stage three coverage of 57.4%. The net NPA is at 2.2%. Once again, I thank DAM Capital and all people who are participating and we would welcome all your calls.

Moderator: Thank you, Sir. We will now begin the question and answer session. The first question is from the line of Mr. Rajiv Mehta from Yes Securities. Please go ahead Sir.

Rajiv Mehta: Hi Sir, good evening, congrats on a very strong set of numbers and thank you for giving me the opportunity to ask questions. So Sir, firstly you said that you are very confident about achieving your growth numbers for the year which is around 12% odd. So when I look at our first half growth or otherwise even I look at our first half disbursement growth, we need to achieve much more in the second-half. Mathematically, we need to achieve 30% growth Y-o-Y in the second-half disbursements as well as in terms of the AUM we need to grow AUM by 4% Q-on-Q for the next two quarters. Are we very confident about it, that we will do it? Also if going into the next year in FY2025, how do you see growth because you spoke about the focus now will be on the next level growth. How do we see growth in FY2025 and what is the plan to achieve that goal?

K Swaminathan: Thanks Rajiv. Thanks for bringing the particular issue in focus. See, I do agree that maybe the first half we did not do as much as we were originally planning as regard disbursement numbers, but what are the issues that are facing now in the second quarter is the festive season that is already ahead and normally our second-half will always be better than the first half. These are the factors which give me some confidence.

I would like to answer Mr. Rajiv's query. Mr. Rajiv you are right that may be the first half numbers especially on disbursements are not as per our target, but we are somewhat positive as regards to second-half for the simple reason that the festive season is ahead and historically this company has been doing very well in the second-half compared to the first half. So with all these numbers at least for the present, we do not want to revise our numbers on disbursement for the whole year. Maybe we will take a view at the end of the third quarter then we will take a call. But as regards to other numbers, as I told in the initial speech itself as regards to recovery and profitability, we are on track. We are confident that the growth numbers also will pick up in the coming months.

Rajiv Mehta: Sure Sir a part of the question was about how you look at growth in FY2025 because we have been emphasizing about the next level growth. So if you can just kind of more spell out whether can we go to 15% plus growth in the next year. Is that a part of our plan?

K Swaminathan: See today I am unable to give you a specific number because I have not got any board approval for same. But we, as a management, we would like to have an increased number maybe 15 to 20% like any other housing finance company in the next year.

Rajiv Mehta: Got it Sir. On stage two, if you can tell us how was the movement in stage two because initial bucket collection, collection team was also strengthened by us and whether are we seeing any benefits in the form of any reduction in stage two assets.

K Swaminathan: Stage two numbers, though we have not given, stage two numbers are steadily coming down. As of now it is around 12%, but we are quite confident that by the quarter end we will be reaching 10%. So going forward the stage two numbers will come down quarter on quarter, that is for sure.

Rajiv Mehta: Just one last question is on spread and NIMs. Sir the portfolio yield seems to have gone up by 30 basis points sequentially. If you can elucidate what are the factors behind this sharp increase in portfolio yield and is there any one off related to a very significant NPL reduction that we saw, I mean did we recover any interest on the NPL then which is why there could be some one off or lumpy interest recognition in the quarter. Is there anything of such item in the portfolio yield?

K Swaminathan: Definitely there is no any one off either in the income side or in expenditure side. There is no such one off event. Maybe in some of recovery maybe we would have got extra interest, but that is the only thing but there is nothing special. One thing maybe because we have started repricing all our book every third month instead of every sixth earlier, maybe that is giving effect on the increased profitability.

Rajiv Mehta: Got it, Sir. I will come back in the queue. Thank you so much.

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

Abhijeet Tibrewal: Good evening. Sir first things first, if you could just explain this trade off between NIMs and growth that we are seeing very clearly. Sir congratulations to you and your team - a very good expansion in margins almost 30 basis points expansion in margins that you reported but at the same time Sir, I mean there is muted loan growth that we are seeing in the book and at the same time you said there are no one offs in the yields. But Sir if we look at the entire mortgage space right, incrementally everyone has reported or is talking about yields to come down because they are trying to retain good customers by offering attractive interest rates. The new business that happens, happens at lower rates than the existing customers. So Sir will it will be kind of fair to say that I mean the BT outs which can be stemmed by offering attractive interest rates or top up loans to customers, we are not doing at this point in time. So either you are not retaining your good customers or another way to think of it is maybe you lend to customers who do not come to you for BT-outs because there is no one else higher up in the pecking order who lends to them. So how should we think about this whole NIM versus loan growth kind of conundrum.

K Swaminathan: Thanks Abhijeet, see as far as BT-outs is concerned I am confident that the BT-outs is not an issue for our low growth. See BT-outs on the last quarter was only 38 Crores as against BT-in of 68 Crores. So BT-outs is not a major issue. You must also take into account see this is because of our increase effort. Our AUM is also coming down. So our net book growth should also be take into account, the reduction because of NPA. So that is one of the reasons which is a differentiating factor between our company and the others in the sector. Because of our higher NPA and the recoveries are also bringing down our growth. This is one thing and your point on NIM versus growth, yes that is well taken. We will also discuss internally if there is an issue we will definitely take a view going forward. But the only thing I see is our mix of salaried and non salaried documented or non documented thing is slightly different from the others so we are somewhere in between and neither we should yield too much or we should charge too much. This is our predicament. Definitely we will take a view going forward.

Abhijeet Tibrewal: Got it Sir. This is useful. Sir the second question that I had was, I mean how should we look at home loans and LAP these two products that you do. Sir I think I remember I asked this question last time as well if I look at the Y-o-Y growth, 1% growth in home loans, 30% increase and 30% growth in LAP. Look at the two-year CAGR again 1% growth in home loans, 18% two-year kind of a CAGR in LAP. So yourself have been around as MD and CEO of Repco for almost a little less than two years now. So even under your tenure you would seen, right I mean home loans have not really grown whatever growth that we are seeing has largely been on LAP. So why I asked this is, I mean, we give out product wise as a quality as well. There also if we see in the past also it is actually LAP or non mortgages which have been a bigger pain point for us in the past as well.

K Swaminathan: Thanks Abhijeet. Let me be very clear. I think I told last concall also, it is not purely LAP we call it as a home equity. It consists of CRE residential, CRE commercial and LAP. In Q2 FY2024 our home loans is 76.2% but LAP is only 13.9% to be exact. CRE residential is 6.8%. Suppose a person is having more than three kitchens it is taken as CRE residential and CRE commercial is 1.4%. See all these are taken into consideration and it is not purely LAP which is growing. Some of the things are more or less linked to your home loan, this is how the percentage is growing and I would like to assure you that as far as the new book is concerned including those which have been sanctioned in the last one year, quality of the book is quite good. See, we would have sanctioned approximately around 5000 Crores nearly two years okay and our actually NPA, we have worked out is less than 10 Crores so to that extent the new book is performing quite well and only the legacy accounts are there either in stage 3 or stage 2 that too we are attacking vigorously and we are quite confident that the numbers will speak in the coming quarters. See as far as our underwriting standards are concerned, see now that the new platform is also with us, we are slightly more rigorous in selecting a customer, in pricing the product and all that and more than 75, all our CIBIL scores are almost about 750, almost all the new cases average. So with that, I feel that the asset quality of a new book is not an issue, the old ones especially those people who are used to paying late and all that, maybe it is a mindset change that is to happen in the customer's mind that we are focusing and we are confident that going forward this will also change.

Abhijeet Tibrewal: Got it Sir. This is reassuring so just a follow up Sir. I mean essentially from what you just said, I mean is it right to then conclude that maybe in the next one or two quarters we should now start seeing growth in your individual home loans as well? I mean your point against non-mortgage loans, the split that you give is well received. But I mean this individual home loans that you report, should we start expecting that now we should start seeing some growth in individual home loans.

K Swaminathan: Yes, definitely we are focusing on those things, but only thing is I would like to take you people into consideration that see this company is around 23 years old compared to many others who are of recent origin. So there is sort of a normal closure in addition to the BT-outs. So that is there which is a differentiating factor for this company vi-a-vis the other. But as you rightly pointed out, yes we are focusing more and more on home loans. In fact for some good quality customers, we have even reduced the interest rate in the festive season just for improving the numbers in the home loan portfolio.

Abhijeet Tibrewal: Got it Sir. This is very, very useful. Again, congratulations on a very good quarter. All the very best to you and your team. Thank you.

Moderator: Thank you. The next question is from the line of Akash Jain from Moneycurves Investment Analytics. Please go ahead Sir.

Akash Jain: Thank you Sir. I think we have done a great work especially the recovery side, I think the kind of recovery you had in the first half, my sense is probably we will end up doing much better than what you have guided of 100 Crores for the full year. I think again the question is on similar lines to the earlier two participants in terms of growth. I think what I wanted to understand a little more Sir if the BT-out is not so high like the number you just said, then why is the book rundown so strong? So I am not able to understand how our book rundown is so high even the BT out number is so low. I think you did mention a little bit about the fact that we have a much more legacy book which obviously naturally runs down more. But I think the rundown number is a little bit perplexing given the BT-out is not so high. Connected to that question Sir, so you have guided for 3500 Crores of disbursement for FY2024 but given the rundown of the book, currently, I do not see us getting to 14,000 Crores AUM on 3500 Crores disbursement. So I just also want to you to please share your thoughts in terms of how do we get to 14,000 Crores AUM with 3500 Crores disbursement given the current run down on the book. That is the first question.

K Swaminathan: As far as the rundown is concerned, see there are two aspects in it. One is the BT-outs that I told and second one is on the normal closures or pre-closures that is also happening. See we have a data which says that the pre-closures are also around 40-50 Crores. See our average book size even though we give it for 15 years or 20 years, average home loan is only around eight years. So people who are nearing eight or nine years, they tend to close the loans before the normal closure. That is one of the reasons why our book growth is not to the extent of our disbursement. BT-outs are under control but the pre-closures or foreclosures are not in our control and I am very confident as regards the numbers as I told in the initial remarks itself. In November I do not want to change the disbursement target. Maybe during January or February we may have a refit regarding the number. See there is also an inorganic way of achieving the numbers. Maybe we will take a view if the factors are favorable we will see whether we will be able to achieve the numbers as far as AUM is concerned but the organic disbursement growth let us see the festive season that are running and we are focusing on our sales vertical, focusing on each and every file, and hopefully and positively we feel that returns will be better as our growth focus.

Akash Jain: Sir is our prerepayment rates higher than other HFCs because we have looked at rundown numbers for others as well and a lot of them also report their BT-out numbers. So if I do that, our prepayment or rundown is higher than the other HFCs. So in your opinion, is there a reason why our prepayments are higher than other HFCs? Is there something that you think is there in our particular either customer set or our legacy customers or whatever?

K Swaminathan: Akash I have not studied. Normally, see our total repayments are around 500 Crores including the normal repayments, prepayments, BT-outs and all that. But we have not studied the other HFCs. Definitely you have given a thought, let us see if we are different visa-a-vis the others but it is a normal thing that is happening.

Akash Jain: The other question is Sir on the strong recovery we had, we have already done recoveries of 82 Crores like you said in the first half itself. So do you see us over-achieving the 100 Crores guidance you gave given what has happened in the first half and whatever processes you are following in terms of recoveries?

K Swaminathan: On that score yes I am pretty confident that we will surpass our guidance.

Akash Jain: Okay Sir thank you so much.

Moderator: Thank you. The next question is from the line of Mr. Bunty Chawla from IDBI Capital. Please go ahead, Sir.

Bunty Chawla: Thank you, Sir. Thank you for giving me the opportunity and congrats on a good set of numbers. Sir as you said, as we have seen the margins almost at 5.4%, which is almost a decadal high for you and you said you will be focusing now on the growth path specifically on the individual loans. So how one should see the margins going for the next half of the year and if there is any revision in the margin guidance which you earlier said 4.7, 4.8% - which is comfortable for you? So how one should see the margin in the second-half? And similarly are there any still pressure on the cost of funds in second-half?

K Swaminathan: See as far as margin is concerned, yes, 4.7, I think it should be easily achievable. That is not a big issue for us. We will also see whether we can sacrifice a bit of margin from the present level to see that the growth numbers happen. That is one thing. As far as cost of funds is concerned today it is slightly higher compared to one year back. Hopefully see some things are not in our hands. Hopefully this cost will be maintained in the second-half itself. Even if it goes up, we will be able to pass on to a certain extent without compromising on our growth.

Bunty Chawla: Okay Sir and lastly on the restructured assets, you said it is approximately 570 Crores out of which 180 Crores in stage two and stage three assets. So can you give currently what is the, repayment and all how this book is panning out and any specific stage two assets if you can give the amount?

K Swaminathan: Let us be very clear it was 770 Crores. 700 of principal and 70 Crores of interest capitalized. So at the time of restructure it was taken. One year back, it was around 770 Crores of the total book. Now it has come down to 570 Crores okay of which I would like to give a clarification that the NPA is 170 Crores. NPA once upon a time was around 230 Crores. It has now come down to 170 Crores as of now. As far as stage two is concerned it is around 200 odd Crores which was there even last quarter also but the stage three number is getting maintained. Slowly it is coming down. See, I cannot have a magic wand to bring down the stage two, especially in a restructured book. It is slowly coming down and we are focusing more and more and the numbers will come down only gradually because the person who has not paid for two or three years, he is slowly recovering from COVID and so he has started payment. It is coming down and the flow from restructured book is not at an alarming level, that is the one thing, otherwise our NPAs would have shot up like anything. Some of the accounts are still maintained at stage two level but the only thing is the overdue number of days are coming down. I do not have the exact number for each and every account, but the stage two numbers in restructured book is also coming down gradually.

Bunty Chawla: Thank you. Thank you very much. That was very helpful.

Moderator: The next question is from the line of Mr. Amish Thakkar from Siguler Guff India Advisers Private Limited. Please go ahead Sir.

Amish Thakkar: Hello, Hi. Thank you so much and congratulations Sir on the continued recovery and delivering on your guidance so far at both asset quality and AUM growth. What I want to understand is how just looking at a couple of slides in your presentation you just talked about the branch count and AUM by state and basically let us say there are two core focus areas I want to understand. One is your home market which is you know, Tamil Nadu and the next four states which is the Maharashtra and Karnataka, and AP, Telangana. Who are your main competition in terms of the people in the pecking order, you are competing with private sector banks and maybe even small finance banks on the BT-outs side, where you are losing customers to but given the ticket size and the cost of funds advantage that you may be having in some of the other new age affordable housing finance companies, I do not want to take names, but there are a bunch of them in these micro market. So I just want to understand who is your real competition in your home market? Who is your real competition in the next 3-4 states that are focus areas? And maybe the last part if you want to talk about, the other segment that you have reported seems to be growing much faster compared to the top 4-5 states to huge 17% Q-o-Q growth where we would think the competition is limited and your focus area will be going forward in terms of AUM growth adding more branches and cost advantage and your understanding of the target customer is better than the competition and the strategy going forward?

K Swaminathan: Amish I do not want to give specific names especially on competition or thing. See as far as the new loans are concerned, yes there are so many other HFCs also because they are in the same area and geographies where we are operating. So in the new loans, the HFCs are our competitors whereas in BT-outs it is mostly the banks, especially those with two or three years vintage and when the CIBIL scores have improved, the banks are the competitors who takeover from us. But in the new proposals, it is like any other HFCs, all other HFCs are also our competitors and the banks are not in competition as far as the new loans are concerned because our segment of customers is totally different from the banks.

Amish Thakkar: And what is happening in your core market which is Tamil Nadu and the strategy in some of the other non core markets and then new states, where you are growing 17%, Q-o-Q what is happening right? Are you adding more branches in these states which are the focused states if you can just highlight one or two states?

K Swaminathan: See we have already opened a few SAT centers. We call it is SAT Center. That is the hub branches that we are calling – core and hub branches. We have already done something in Karnataka. We will be opening two or three more branches in Andhra and Telengana. We have plans to open one or two branches in Ahmedabad region comprising of Gujarat, Madhya Pradesh and all that we will be opening. So another seven centers we will be opening in the second year in non Tamil Nadu area, Tamil Nadu where we are having core operation, we will be doing actually six or seven in the second-half.

Amish Thakkar: Okay and one last question Sir before I go. From what I understand the branch level operating model has changed significantly since you have taken over there, because of the new IT systems and everything, we are able to do a lot more things like some of the other new age companies, which is, having more sales people who are going out into the market instead of waiting for people to walk into the branch and being more aggressive by working with DSAs and focusing on LAP and which all are the fastest growing area in every micro market that we are operating in a branch level but when we are going to a new market or even existing market we are looking to hire the best sales people, the best performing employees of our relevant competition, what is that fix to potential DSA or an employee who could be working on our own payroll where we are opening new branches? What is our quest to these people that okay what does the co-offer compared to new age competition or banks, what is the best hunting ground for us to find the best talent in these markets and what is our strategy on basically hiring the best talent for existing branches as well as new branches where we are going?

K Swaminathan: Amish sorry there was a break, but I could understand the context. See, let me admit we are still a long way to go as far as new vertical especially the sales vertical is concerned compared to those in the industry. We have just started the vertical. We are slowly training them and all that. It is not that we have taken so many people from the market, it is more our own people who are sitting inside the branch. Now we are slowly training them and asking them to go out and start canvassing and getting business and slowly steadily the numbers are improving. Last month at least 20 odd percent of our new business came from this new sales vertical so we are focusing more, training them more, hopefully these numbers will increase. We will also not be averse to recruiting more people on the sales line in the coming quarters. So we are confident, may not be in the current year, but at least in the next year onwards, our sales vertical that is our own people will get more and more business compared to the other segments like DSA.

Amish Thakkar: Okay and any KPI that you are tracking in terms of okay where we are in terms of the new disbursement for sales employee and where the competition is and if you can start communicating that in your investor presentation going forward. Like we can find out where the competition is, the listed players are, but at least where you are today and what is your medium term target in terms of employee productivity over the next 2-3 years and how you are tracking quarter on quarter on that. That would be very useful to understand how does the management think about all these things and what are the medium term targets?

K Swaminathan: As I said, this sales vertical itself, it is a new concept for the company. So slowly they are graduating. I think it will be premature if I start giving the numbers straight away. Let us graduate to a particular level and we will not be hesitating to give the number in the coming quarters once we reach a particular level. Today we are too early and too small as far as the sales vertical is concerned.

Amish Thakkar: Okay. Thank you so much, Sir and congratulations and looking forward to hearing more from you.

Moderator: Thank you. The next question is from the line of Chandra from Fidelity Investments. Please go ahead.

Chandra: Hi, good evening. I had a few questions. One is, the average ticket size seems to be still at 12 lakhs this time last year I was looking it was at 15 lakhs and the idea was that over a period of time ticket sizes may gradually move up because there is any some level of house price inflation, but it has actually not moved up for now 12 months now. So just what is happening over there and your thoughts on that. Second is, just going back to some of the starting questions, we are just struggling to see how you will end up actually 12% even if the second-half is going to be strong just given the current repayment rates. Do you actually think that you are going to do some portfolio buyouts or something like that to get to that 12% number? Is that part and parcel of that? That is question two. Third is maybe just as of today you could just help us with what the sourcing mix, how much is getting sourced by DSAs now and other channels and then last is it seems that the borrowing costs have peaked in last three months. The numbers which are put out has been that 8.3 ish, is it safe to assume right now that our yields on origination and our borrowing costs should be similar for maybe the next six to nine months?

K Swaminathan: One by one I will try to answer you. See average ticket size for 12 lakhs is for the entire book. The incremental book is around 17 lakh which was there even last quarter. So the incremental book is around 17 lakhs. Portfolio buyout today I do not have any proposal but going forward what are the factors that are expected – If everything matches, we will not hesitate to go for a portfolio buy out, subject to of course approvals by the authorities concerned. Sourcing mix as of now and it is 33% DSA, which was around 30% earlier, it is now around 33% now and the remaining is both from our sales vertical as well as the walk-in thing that is happening. This is the sourcing mix. Borrowing cost to my knowledge, I think almost all the banks have repriced their lending to us. We do not foresee any sudden increase based on the current levels. We do not see any sudden increase based on the current levels, average borrowing cost on all the borrowings. But even if there is a small blip, I think we will be able to pass on to our customers that much we are confident but in the future we are not aware and depending on the market, depending on the future it may happen okay but as far as margin is concerned, I think we will be able to maintain this three odd percent spread that we told, I think that we will be able to maintain.

Chandra: Just going back on the ticket size. You have been giving out this ticket size number for a while now and the average ticket size on the loan book has actually gone down incremental you have been giving sanctions. So the incremental number has been higher every time but the average is actually going down in size so really could not make entire sense about that.

K Swaminathan: I think it is not that way. I think it is actually going up, maybe we can send you the details separately and we ask our people also to see that this is also included in the coming periods.

Chandra: Sorry just to clarify when you said the 12% as of now the thought process is still going to be organic. You are not really thinking of getting a buyout to get that 12% number, the thought process is that this can be organic right now.

K Swaminathan: Let me be very clear, as of now, we want to grow organically.

Chandra: Okay great. Okay thank you.

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

Anand Mundra: Congratulations Sir on good set of results. Sir my first question was what is the reason for reduction of loan from National Housing Bank? That is the first question let us do one by one Sir. It would be easier for you.

K Swaminathan: Okay, see NHB we have not availed any facility for the last one and half years, two years, for the simple reason some of the covenants we could not meet last year, but now we become eligible, we have applied. Hopefully if we get the NHB numbers will go up. It is coming down for the simple reason we have been repaying.

Anand Mundra: Okay so going forward, we may see an increase in loan from NHB because we would have meet some conditions or we would have applied the loan.

K Swaminathan: We have applied and I cannot say about sanction. Once the sanction comes, we will be availing and the numbers will start going up.

Anand Mundra: Okay Sir you have mentioned in the previous calls that you have put up team for sales and collection both in most of the branches. So just wanted to understand how many people you have put for sales and how many people you have put for collection.

K Swaminathan: Sales around 200 people are there, collection around 80 people are there as of now. Going forward the sales numbers have to go up. We are also contemplating maybe we will increase.

Anand Mundra: And this 200 people you have put from which month say April from this particular financial year.

K Swaminathan: I should say it started from July-August sequentially and let me be very clear they are all raw, drawn from our own system. We did not recruit from outside and slowly they are graduating.

Anand Mundra: And the 80 people in collection team also has been put up in July and August.

K Swaminathan: Collection team is fairly old. I think they are now at least six months old. It is slightly well oiled I should say compared to the sales.

Anand Mundra: The benefit of the people for the sales team will accrue in the next two, three quarters because they are just put up in the last quarter.

K Swaminathan: Yes, that is what I am saying it will take some time for the sales team to move forward, the numbers to go up and all. As I said, they are still new. Our collection team is good, that is one of the reasons why we are able to contain our NPAs.

Anand Mundra: Sir what was our BT-in for this quarter?

K Swaminathan: BT-in 68.7 Crores, BT-outs 38.9 Crores.

Anand Mundra: And Sir what is the slippage for this quarter?

K Swaminathan: This quarter is 23 crores.

Anand Mundra: 25 Crores and last question is, I have compared the numbers of other housing finance companies and stage two is quite high for our company as you all already know Sir. How do you see this panning out Sir, whatever the number we have of stage two over the next 2-3 years? What is your target Sir?

K Swaminathan: See stage two is quite high because of my legacy reasons. I should not say maybe because the previous years the company concentrated more on prevention of slippages as well as on growth. Now that we are focusing equally on the stage two control as well, we are confident that at least immediate future should be less than 10%. We should bring it to single digit that is my immediate thing. By 2024 or by 2025 we should be as par with the market as far as stage two is concerned.

Anand Mundra: Before this 80 people you have put in collection, what was happening in collection, there was no specific people on collection before that.

K Swaminathan: See this company was organized more on a bank wise model, it was a more general model. There was no specific verticalization that was happening in this company. So slowly we have started bringing in that culture. So it is taking some time. Even before that everybody was doing. It is not that the collection was not focused. I should say it was not focused, it was happening. Maybe the branch head as well as some other staff were calling, but now we have brought in some sort of a systemized way of follow up as regards to stage two.

Anand Mundra: Okay and Sir any particular incentive scheme you have designed for collection team.

K Swaminathan: Whether it is a sales team or the collection team or the pure recovery team. See, the incentives are all given based on the numbers – targets vs achievement. So that takes to reach the numbers.

Anand Mundra: Thank you Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Mr. Rajiv Mehta from Yes Securities. Please go ahead Sir.

Rajiv Mehta: Hi thank you for allowing me the follow up. So Sir, what is the thought process on this stage three coverage. So, as I see, I mean we have been resolving a lot of NPL and it seems that we are not releasing the provision to them and we are retaining provision and which is why the stage three coverage on the remaining NPLs has been going up significantly in the last four, five quarters. Now it is at 57%. So what is the thought process of holding high coverage and now incrementally also if you said that the new slippages are lower and then further resolution of NPAs will happen and the NPL number will actually come down, you may have incremental reversal of provision this year now, so would you take it back to P&L then the incremental reversal of releases of provision there or you will keep on adding; and till what level of PCR you would want to add?

K Swaminathan: Rajiv we do not have any specific target as far as provision coverage ratio is concerned. But at least the present thought process is to retain these provisions that are getting released, so that one our net NPA will start coming down and at least up to March 2024, as of now that is the idea. Maybe if our recoveries accelerate and all that, yes, definitely as you say, maybe some of the provisions will go for write backs.

Rajiv Mehta: Okay so maybe till March 2024 you are saying that you keep on retaining the provisions from NPL.

K Swaminathan: That is the present thought process, let be me very clear. Okay, presently I can say because you asked this question presently this is the thought process. Maybe we will take a view going forward.

Rajiv Mehta: And Sir can you quote the incremental lending yields for home loan, lap, and CRE residential and CRE commercial.

K Swaminathan: Okay see approximately it is around 11.5% the total yield and it is around 10% under for housing loan and around 13 to 14% for non housing loan. So average is around 11-11.5.

Rajiv Mehta: Perfect and incremental cost of fund, is there a number?

K Swaminathan: Incremental cost of fund - see again, I do not have the numbers exactly, maybe our CFO can give separately. It is around 8.5%, approximately 8.5-8.6 that will be borrowing cost.

Rajiv Mehta: Got it Sir and thank you so much for this.

Moderator: The next question is from the line of Abhijit Tibrewal from Motilal Oswal Financial Services. Please go ahead Sir.

Abhijit Tibrewal: Sir just one question. Thanks for allowing the followup. Sir you have covered everything very aggressively but I think if I remember correctly during the opening remarks you have said that you have incurred close to 20 Crores until now on the technology on the platform transformation that you are doing. So how should we look at opex and any particular tech expenses that you have budgeted, I mean not necessarily the next six months but including the phase two as well that you guided will be completed over the next one year?

K Swaminathan: See our budget is around 50 Crores for software cost and the hardware cost for the technology upgradation, this is excluding the other cost like AMCs and all that. Out of this 40 to 50 Crores we have so far spent 20 Crores on phase one, still some more amount to be spent on phase one, some small amount, and phase two is going to be implemented. And we have already taken it to our balance as software cost. And the impact, I feel, may not be much because the profit growth that we are experiencing I think that will be able to take care of the cost, the depreciation cost of the software.

Abhijit Tibrewal: Got it so if I heard you right what you meant is you have budgeted 50 Crores for this tech transformation for phase one alone and then for phase two it will be separate.

K Swaminathan: Let me clarify Sir it is for 50 Crores for the entire thing, 40 Crores for the software and hardware for both the phases plus 10 Crores for our Security Operation Center. So 50 Crores is for all the three application, phase one, phase two and SOC all put together.

Abhijit Tibrewal: Just one last follow up. So then how should we think about overall opex given that you are thinking about adding branches, you thinking about this tech transformation like you said there is another 30 Crores which will be spent over a course of time. Will we see some volatility on the fixed side or do you think it will be run rate as usual.

K Swaminathan: See today my cost income ratio is around 23 to 24%. I think we will also gain by way of reduction in our reversal of interest income and all that. So going forward, I think we should be able to maintain the same 23-24%. I think there should not be a big issue. It should be around the same level.

Abhijit Tibrewal: Got it Sir. That is all from my side. Thank you so much.

Moderator: Thank you. In the interest of time, that was the last question for this session. I would now like to hand the conference over to the management for closing comments.

K Swaminathan: Okay, thank you DAM Capital for arranging and thank you for all the investors, analysts who took time off that to on a Dhanteras day to be here with us. I wish to reassure you all that the company is growing steadily and whatever is a little pitfall especially on the growth front and all we are confident we are positive that we will be able to do something at least in the second-half. We will keep talking to you. Maybe the next time on this call we will present a still better picture. I once again, thank you all for taking time off for being in the meeting. Thank you.

Moderator: Thank you so much Sir. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.