"Repco Home Finance
Q3 FY2021 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of Repco Home Finance hosted by ICICI Securities. 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 this conference is being recorded. I now hand the conference over to Mr. Kunal Shah from ICICI Securities. Thank you and over to you!

Kunal Shah: Thank you Rutuja. Good afternoon all of you. This is Kunal Shah from ICICI Securities. Today we have with us Mr. Yashpal Gupta, Managing Director and CEO and the senior management team of Repco Home Finance to discuss their Q3 and nine months FY2021 earnings and also lay out the medium term strategy for the company. Over to you Sir!

Yashpal Gupta: Thank you. I will take about five to ten minutes to explain about our strategy and numbers. Of course, you already know. We will discuss that going forward, but just to tell you exactly. The FY2020-2021 as you know began on a very sad note. There were COVID issues. There were liquidity issues. We were not sure about the customer will pay on time or not because of the lockdown. Fortunately, RBI and Government of India supported us through different measures and that has picked up well. That is reflected in our nine months results also. If you look at the cost of funds, if I look at the last for the year December 2019 vis-a-vis December 2020, the cost of funds have gone up by around is 1.2%, though it is not reflected in the whole quarter because of the decline was gradual, so Q3 cost of funding was slightly higher, but if we look at December cost, the cost had gone down and as you know passing of the letter of intent or the increase of intent takes some time. We are in first half, the benefit to the customer, but at the same because of this delayed in passing plus handsome recovery in some written off cases, the margins are very high. You could have seen it is one of the highest in that we have recorded. The spread for Q3 is close to 3.5. The NIM is close to 4.5 plus. That is the positive finding and going forward there will be some decline because we will pass on the benefits, but not a big decline because these cost of fund is continuing to reduce and we will continue to recover money from old age customers, number one. Number two if you look at the asset quality that was a major issue. The last concall, most of the questions were on the asset quality, of course the book has grown from stage, but I can tell you that we have recorded even better numbers than what we expected. We expected these numbers more than what we expected. The increased number as of October we are close to 4%. In December they have gone up to 3.8% and they are pure safety number. They are accounted by merger and no manipulation that. All branches seniors are staying in home. The NPAs are already 3.3%. Even if the Supreme Court had not given the stay, in Repco we have made provision for that. Our provision coverage ratio is taken into account, with stage I and stage 2, and in our data the provision coverage is close to 17%. That is where we have enough cushion left in our books that even if the asset quality decreases in the future, it will not impact because Q3 was pretty tough for us. We told our customers, you pay off one time, so we did recovered a lot of greater amount and we are doing to consuming though recoveries are much better, even collection efficiencies have gone up to pre COVID level at 97% plus. So we do not expect the NPA will go down, but even if NPAs are increased going forward if at all we have enough cushion left. The restructuring of accounts all of us, we are thinking that we will be doing close to 1.5% to 2%. We have done restructuring of only 0.3%. Just remember 0.3% only, not 1.5% or 2%. We could have been easily done, but we convinced the customer that ultimately it is active on you because if we reschedule the interest will be accumulated and you will pay going forward, not now, but going forward and customers accepted that and they paid us. The liquidity we are quite comfortable. If we look at on balance sheet liquidity that means the FD etc., in our balance sheet are close to Rs.500 Crores. Plus off balance sheet liquidity is close to Rs.2000 Crores. On the major let downs will continue I will not name then but all the big lenders are requesting us to pay how many. The government lending is one area where we are not doing well, but we are not worried if the asset growth. The year-on-year growth is about 4% and that is because the commercial banks have become very interested in lending. Their cost of lending of the lending rate is below 7%, at 6.9% or below 7%. We do not have to part of that rate. We do not want to grow the balance sheet just for the sake of growing. We are happy to grow at higher rates even the growth is slow. We are looking at higher yield and we have enough pricing power. We have our own USBs in this system and we are going by that. Of course, we are pressurizing branches to grow the balance sheet. The Q3 as you know and we have given the disbursement numbers, what we had in Q2 and Q2 numbers has to go on. Only Q4 will be higher than Q3, but it was so many but unfortunately we cannot do. We have decided to accept that. Let us pay out that part. We are lending meanwhile spending of balance sheet with robust recoveries, we invest in system internally plus the compliance system is faring, RBI has come out with our favour on the regulatory arbitrage and this will audit, we are focusing on that. Fortunately, we are growing. There is no negative growth. We are growing at 4% maybe in six month to one year time when the market is desperate because those are seeing in the market and we are happy probably we will record growth of 6% to 7% for the year, but what we happy is that our margins are going up. Our asset quality is improving though it is lower, but that is not the cause of worry for us because the cost of funds has gone down. The liquidity is good. The capital adequacy ratio is 27% plus of course RBI circular says that part of now the business we do we have to market them in operations also where we have enough cushion, provision coverage ratio is probably close to 70%, so we are doing very well in all respects and that is what we are. We are also seeing our IT system, we are funded in case of our exposure, so in the interim when both these little down, because the competition, because of the balance sheet for growth of business, which we do not do. We are using that time for other activities. That is what we are doing and I will now attempt all your queries, but basically just to tell you that NIM is good, spread is good, ROA is good, leverage ratio is lower though many of the investor, right now will ask, this was higher, but during this times of difficulty it is better to go lower yield plus the ROE is high, capital adequacy is high, the asset quality is good plus we are improving our system process on the IT side, on the complex side and the disbursement side. Now I will be happy to answer any questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Sir first of all congratulations for such numbers. Sir when you mentioned in your opening remarks that you will have 6% to 7% growth are you talking about FY2021 and if you can provide by what time we will start aiming for a slightly higher numbers? Can next year be 10% to 15% kind of growth because if we look at in general, the system growth in housing finance has picked up significantly so by what time can we expect it to trickle down for us as well?

Yashpal Gupta: Thanks for asking that question. As you rightly said the growth in housing finance has picked up substantially, but at the same time the growth numbers have shifted from NBFC to commercial banks because the RBI is giving them repo rate, daily investing in reverse repo Rs.7 lakh Crores is market level. Recently some big banks had doubled their book size, they doubled the book size while if you got the books from NBFC. So to be frank it is difficult to tell a date. What we are doing is we are looking at quality growth. We do not know how long this situation will remain. I think RBI Governor said that probably it will remain in the market for the next few months. Then the government improvises while that will be credit margins come from other sectors like MSMEs or the corporate sectors and then that will probably come less aggressive. So it is difficult to give a time, but that has value because it will all depend on how the market plays out. What we are doing is we are happy. It is not that we not growing value. It is not that we not growing. Wherever we can grow, we are growing. We are becoming busy. We have started social marketing, retail marketing and develop the necessary tools plus we are doing GST appointment. What we are doing is whatever we can. I was only telling that the push from bank is too strong that it is difficult for us for any NBFCs. If you look at the NBFC industry except for those who are in real estate business others have not grown so much. So that is what I was telling that probably for the last six to eight months, we remain a single largest player, but of course tomorrow if the trend picks up from other sector and banks will do separately then yes we can also grow. So it is different for some companies.

Viraj Mehta: Sir what is the monthly takeover from banks? Like last time you said it was closer to Rs.300 Crores a month? What is the run rate at this point?

Yashpal Gupta: That is right. We will close down. We do not discuss that figure. This Rs.300 Crores is Q1.

Viraj Mehta: Okay sorry. It is Rs.300 Crores per quarter and Sir just one final strategic question is we are seeing improvement in NIMs and ROA when essentially everybody else is reducing their NIMs and grabbing more market share so do you think if we actually reduce our interest rate then it will help us grow faster? I know it is a tricky question, but at an overall level do you think it will add significant values as a firm if we actually do that readjustment?

Yashpal Gupta: As you said, it is a very tricky question. Whatever we can reduce, we reduce. We pass on the benefit. There is a proverb that "This heart desires more! If we just give 2.5 then they will tell us to give 3. So we always stand behind these two, but it is not that we are not reduced. If you see some bit of March till now, we reduced about 75 BPS. So we do reduce and of course customer quality also matters, but what you are explaining is that wherever we reduce and because of that the customer buys lower rate they are more like a go away because they play on the rate whereas we go by reduction rate than they know us. We have our USP coming and we comply. Of course we will compromise on recoveries, but many banks are really busy on capital adequacy. May be some reluxation and that is all. He pays 10% to 11.5%, but still NIMs will remain. That is a very tricky question but whatever what all we do meet every week to 15 days and whatever possible we will do.

Viraj Mehta: Right Sir and can you throw some light on branch expansion because we have essentially stalled this for the last some few quarters?

Yashpal Gupta: This year we are hoping for about ten branches, but because of COVID this honestly now we are not doing. This year may be if everything goes right that COVID related restrictions are completely removed maybe we can do about 10 to 12, but the last quarter did not make sense to do.

Viraj Mehta: Thank you so much and best of luck Sir.

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

Piran Engineer: Congrats on the quarter. I just have a couple of questions. Firstly what is our stage two loan?

Yashpal Gupta: 7%.

Piran Engineer: I am sorry 7%?

Yashpal Gupta: 7% yes.

Piran Engineer: Okay and what was it in the prior quarter?

Yashpal Gupta: I think Bala will give you separately, because some things we disclose something we do not disclose and as you know SEBI has made it mandatory to disclosing that subsidiary so whatever we disclose that we will do through Bala, but I can tell you it is below 10.

Piran Engineer: Sorry.

Yashpal Gupta: It was below 10.

Piran Engineer: It is below 10 okay?

Yashpal Gupta: The other number Bala will give.

Piran Engineer: That is fair enough. Sir my second question is, I missed out what was the liquidity on the balance sheet you are carrying? What is the number that you mentioned?

Yashpal Gupta: Rs.500 Crores roughly. It will be 10 to 15 there, but roughly Rs.500 Crores at the end of December.

Piran Engineer: Rs.500 Crores?

Yashpal Gupta: Yes.

Piran Engineer: Okay and Sir my last question. You partly answered it in the prior question, but I could not catch too clearly, so when we expect stress?

Yashpal Gupta: I want to tell you that this Rs.500 Crores equity is actually having a negative carry cost for us. Despite that we have maintained good NIM as such. Did I answer your second question?

Piran Engineer: So we have usually been maintaining and guiding to spread the 3%, 3.1% and 3.2% whereas this quarter it was much higher so where exactly are you guiding?

Yashpal Gupta: It is still long term. Our targets remain around 3.25% to 3.2%, but see what happens as I told you sometimes there is delay in passing on this benefit. So sometimes it is down. Those costs in a rising interest rates scenario, which we are not feeling now, but our costs will rise faster than what we pass on to the customers. Similarly in a falling interest rate scenario, our cost of funds goes faster than what we pass on. Second are the recoveries because this service that in fact of account closure, here to written off loan account we have done some recoveries they also add so long term basis at the moment which is 3:25% may be some fluctuation you can see, but long term remains at 3:25%.

Piran Engineer: Okay understood. That is all from me. Thank you and all the best.

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

Aviral Jain: Thank you so much and good afternoon Sir. Sir my question is two fold you have taken a lot of initiatives on asset quality corrections, setting up recovery branches, focus on collections, very structured underwriting processes, and also collections efforts as I mentioned and there was some big change underway in the IT system so now that the house is a lot more in order in terms of very strong processes what is your three to five year glide path for the company? Where your efforts would be landed upon? What are you focusing on? So my question is slightly more long dated from a three to five year perceptive what are the things that would aim at given so much homework has been done and as you mentioned COVID year you took the advantage in terms of setting up the house in order, in terms of compliance and in terms of processes?

Yashpal Gupta: So couple of things. Here as you said we have made a lot of effort on asset quality, on risk management, system processes, etc., but if you ask me, I would say we are already 25% of what we should be. So may be it will take one or two years more to put the entire house in order we are doing it at a top level, but probably at a near maintenance of banker that is yet to trickle down. So that is what we are focused. Now second when you talk of three to five year vision, probably you are talking of things like raising capital or mergers so these are strategic vision, which unfortunately I cannot share with you. That board of directors and share holders will decide. So in that front, I cannot talk, but still on the processes I would not say that everything is in order. It has improved vis-a-vis December 2019. If you ask me on December 2020, it is much better, but still there is a lot to be done. All will remain the same, but still I find a lot of issues in the underwriting, lot of issues in marketing, some issues in takeover like you said and collection, so that we are focused. Our focus is operationally will be to improve the system and RBI has come out with a huge number comply with them, make it a robust system, educate people on our system to follow with and that long term strategy that direction will be decided by the board. It cannot share with you.

Aviral Jain: Sir my point was on business objectives so I am not asking about say mergers, acquisitions or capital raise, but from a three to five years standpoint or may be a three year glide path in terms of what sort of growth would be gulling for given things normalize now?

Yashpal Gupta: If you look at this growth, it all depends on the top line what the country growth and hopefully this year, we will pass on and next year it will be better. So three to five years, I will look at assuming the biggies that all the sectors are growing and look at around 15% growth on compounded basis, but it is all depending on the growth in the market is. If the growth is negative, I cannot go at 15%. I can see whether one thing is there. We can grow definitely higher than what average growth in the different sector will be because we have lot of positive vis-a-vis other players. We cannot probably beat the commercial lines that are going on to integrate, but vis-a-vis other NBFC etc., you can grow 2% to 3% higher. So if the growth is at 10%, we should grow at 15%. That is what I will say.

Aviral Jain: Condominant to that because additional growth rate you would take and you will get the advantage of lot of operating leverage, so the return ratio should improve from here on if you are able to clock anything more than say 10% to 12% growth rate and again part of this 15% AUM growth rate, the profitability numbers would look much more attractive than what they are today.

Yashpal Gupta: You are right. As you asked the question that it should grow keeping the margins higher or should we lower the margins to grow. That is the decision, we need to take, but definitely the growth will be higher or PAT will be higher both will be higher. Both cannot be lower, so definitely profit numbers we see going up.

Aviral Jain: Sir my question was more on the structural ROA in your business because see leverage is less per year? You are at 26% to 27% capital adequacy level so you can take a call of maintaining a certain amount of NIM, but because of leverage improving from here on and since this is a spread business that we concur more the level of your equity base, the better are the return ratio from a ROA or ROE perspective?

Yashpal Gupta: We are targeting long term ROE of between 2% to 2.5%. I think given 2.5% probably it will not be correct for me to say, because we are not in that business where we look for 6% to 8% margins. We are okay with the asset quality, but yes if the RF is withdrawn we have mandate from board to increase to 25%, right now it is 18.8%. So some margins can come for that, but I would be not correct if I say that long term margins more than 2.5%.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Thank you for the opportunity. I just wanted to understand on growth? You are operating a segment in which actually commercial banks do not operate right because you are lending to more like unbanked people kind of so what is the real competition with commercial banks?

Yashpal Gupta: See it is not correct to say that we operate in a system that commercial lines do not operate. We have 70% of our books, which commercial lines do not touch and that are why our book remains untouched, but about 20% to 25% book is always attracted to cost also that you should look at loan of Rs.40 lakhs to Rs.50 lakhs. We do have loans of Rs.40 lakhs to Rs.50 lakhs. So it is not kept in a way even if we do not operate solely in lower segment of Rs.8 lakhs to Rs.10 lakhs. So if we do that the operating cost will be very high. That is going to cheat the customers. That is not our motto. 70% to 75% order book is around Rs.10 lakhs and about 30% of books are Rs.50 lakhs also. Where we need to get faster growth, but that of course creates a risk of takeover also. So to say that we do not operate is not correct.

Tushar Sarda: But 70% segment should grow much faster right because you do not really have competition from commercial banks and all? So I am just trying to understand why our growth rate is low as compared to the industry growth?

Yashpal Gupta: Industry growth, see this year all have grown at 4% to 5% only number one. Number two there are players in the market who build bigger models and I can name some of them like after this one is in North India who targets specifically that segment. From the beginning our target is not MSME while it is one of the targets not the only target. So the way we are put up or the systems are there. We are not closely into that area. May be we can be in the future, but right now we are not in that area. What happens is that the rate of interest was not charged higher. Like you say average yield is only 2%. Whereas those who are in that segment they charge 13% to 14%. Then lot of changes had to be done. We are not okay with that change right now. So I am saying if we are exclusively targeting that segment then we have to lend at 14% to 15% we are not looking at that.

Tushar Sarda: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Sir my question was that on this alliance that how much percentage of your book may be so susceptible to balance transfers to this commercial banks? So the potential point you said would be around 25% to 30%, but according to where things stands for the next two to three quarters where you can see some balance transfer to commercial banks? How much of book would be that kind of a book?

Yashpal Gupta: As you rightly said about 20% to 25%, but it is not the constant book because we have to replace that book because at least for one year to two years new loans many of whom they had to dissolve the date of growth and they grew at tandem. So 20% to 25% is almost constant in that it goes down **(audio cut) 30:01**. So that 1200, I would say about again 300 to 400 would have come from that book, which is for the toll, as you said two to four. So if you want to ask why you are sustaining such book so of course, the book is not bookish thing. So we have to manage business with all sorts of business there are some sector, that some are going one year. So it is a 20% to 25% constant figure. It is not a reducing rate and we are okay with that.

Sanket Chheda: Okay so let me put it this way, this whatever our disbursement was about Rs.550 Crores and may be similar amount of repayment or balance transfers have been done or the draw down from the book has been done? From next quarter how much we expect in terms of disbursement and maybe in terms of repayment for this balance transfer?

Yashpal Gupta: So we are targeting around Rs.700 Crores in Q4, Rs.700 Crores of disbursement and Q4 we will try to bring in the customer **(audio cut) 31:44**, but we do not know because this year commercial banks are aggressive. So about Rs.300 Crores to Rs.400 Crores will be there and about Rs.700 Crores will be disbursed that is coming. For the net increase, it will be about Rs.300 Crores to Rs.400 Crores.

Sanket Chheda: Okay and that is to sustain going into next year as well is that right?

Yashpal Gupta: See you are asking question, which if I answer will be wrong. We do not know how will the market play out in each year, but in the system what you are observing in Q4 is always better, people who buy property even bank loan, to do business, Q1 is generally dull. We do not know housing finance. We will want to be that way, but we do not know.

Sanket Chheda: Sir last question we have margins, which have reached now 5% and we never guide or we never occupy to do those kind of margins so why are we not planning to cut on the yields maybe to capture growth at least until the demand is back 100%?

Yashpal Gupta: No that is what I told that margins for one month. As we pass on the rate cut because there will always use it and get. Margins will go down. They will not remain 5% forever number one. Number two how much to pass on is always a tricky question because we pass on too much then we are competing in the bank segment. Then the customers based on limit to pass on the cut. We have to balance these two. We have to reduce somewhat, but at the same time do not compete with the bank. That is the challenge. That is what we are here for. As the management, we get salary for this. This is my challenge only that how much rate cut should we pass on. If we pass on too much then the price will come down and we target different sets of customer. If we do not pass on we might as well have customers do not want to pay. So that is what balancing is required and that is what we do on a regular basis.

Sanket Chheda: Okay Sir then of this 25% book which we have in commercial bank may be what percentage of the book will be below 10% in terms of interest rate may be 8% to 9% because that will lead the book with more susceptible for the balance transfer?

Yashpal Gupta: If you look everything our bench is 6.9%, 7% or 7.5% so it is difficult to say because it also depends on the relationship over the customer with us giving top up loan so many thing that number we get. It is a wild guess.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua: Sir thank you for the opportunity. Sir firstly one data point what is the incremental cost of funds that you are drawing from NHB?

Yashpal Gupta: It is around 6% to 6.1% or 6.2% I guess because see what happens is we treat it as borrowings. One is the LTRO loan we have taken. Second is the 40% is primarily for the rural sector and the third is urban. We bill ourselves. It comes to around 6% but it will differ as top between the two. This is not a single rate, but we are borrowing this year around 6%.

Ritika Dua: Okay Sir. Sir secondly one of the questions you were saying that obviously you have really that was your key objective since you joined to change a lot of systems and processes and you have obviously accomplished the last part of it, but you still continue to say that from a top management level still there is a lot to be done? Could you highlight still what is left to be done that is one and lastly Sir on the growth bit, I know a lot of questions have been on that, but still if

I could again ask on the Rs.700 Crores number disbursement, which if I heard it correctly could you help us understand that you are not looking to grow branches and you have not done this year? I think most of the companies have not and there is a lot of pressure on yield, which is not just a pressure for the balance transfer, but this is also a pressure to grow as well, so then how are you even targeting the Rs.700 Crores number, so these are my two questions?

Yashpal Gupta: See first of all on the systems process, it is across the board. It is not only one area. We have made gradual improvement whether it is black swan event, whether there was internal audit, whether it is inspection, whether it is housekeeping, and whether it is selling at the subsequent time, so it is a vast thing whether underwriting, we taking out lease, recoveries. We are doing, but it is not that ideal chance that I hope for the green path. It is across the board. I will not be saying that it will be sort of improper for me to say if we put in inspection, but not provisions. It is across the board. The second one when you talk of the deferent yes it is on SEBI, I told you that whatever rate cut we can give, we are giving, but we are not definitely fighting a rate cut and we have done infusing despite all measures, for 15%, I think so it is a push to the branches also and there is not much. It is only about 150 or higher. We are pushing them so I would say to a large extent it is not a push of the branches are the reasons and we are crediting to fast and disbursements in documentation thing. We feel the execution alternate study. The Rs.700 Crores is not steady. It is execution and we are hopeful that it will be nearby that based on the numbers till today.

Ritika Dua: That is very helpful Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Amit Ganatra from HDFC Mutual Fund. Please go ahead.

Amit Ganatra: Good afternoon. Just one question. What is your thought process on branch expansion? Did you already explain that and if not please can you explain?

Yashpal Gupta: Generally as you know that we have been adding about 10 to 12 branches. This year because of COVID issues, we could not do because this year we are planning to do also, but next year if everything goes well then 10 to 12 branches will be there. Where to do that we are yet to watch out. It may be come in the Assam and some will be in our core market of Karnataka, but that we are not into think because this year we are not doing. Next year we will do more than 10 to 12 branches.

Amit Ganatra: There by only follow up question would be that 10 to 12 branches cannot you accelerate slightly the branch expansion because that also can lead to growth right? When time growth is a challenge may be expansion can help, an accelerated expansion because your profitability definitely permitting you to do that?

Yashpal Gupta: It is correct, but what happens is our experience in the past because it is **(inaudible) 40:33**, inspection was not good like some places I will not name them. The local persons when we quoted them they grew very fine and they made some corruption and fraud. So we had to manage that also. We are okay with new branch growth solely that is the privy we have, but it is not to say we will not do. May be we can do, but as of now, there will be 10 to 12 branches per year.

Amit Ganatra: Okay thank you.

Moderator: Thank you. The next question is from the line of Hiral Desai from Anived Portfolio Managers Private Limited. Please go ahead.

Hiral Desai: Yashpal my question was since you have come in obviously you have done a phenomenal work in terms of risk management, asset quality and the operations side, so we at the start of the call I think one piece that has been missing has obviously been growth? Now assuming that RBI seems to be a bit hellbent on ensuring that the rate environment remains benign and assuming that the commercial banks continue to remain competitive for the next 12 to 18 months how do we drive growth in a scenario like that and to the question on obviously commercial banks becoming more competitive, but you also had a scenario where guys like Indiabulls, Dewan, PNB Housing, Edelweiss and a lot of guys who used to directly compete with you have actually pulled back from the market, so I am just struggling to understand why are we not able to grow at such a smallish space?

Yashpal Gupta: There are a number of questions that you asked. Let me answer that one by one. Some of the names that you have taken, I will not repeat them. They are a free player today. So one is that you can grow very fast, do not bother about where you are going, if it is shift, let it crash, but that is not how our shareholder looks at it. We are happy to go at lower phase, but stable phase. That is our strategy. Now of course you may like that or not like it. The second part is very important that you asked about commercial banks working. What is happening is that we look at home loan, is across the meetings we featured in the interviews for the last two years. They have been telling that NBFC what we call head of IT is probably not required. If you remember Mr. Viraj Daga had said in one of the interviews that there should be reshifting in receivables from investing segment to turnkey segment and right now also issues are given different whereby they are talking about some large NBFC though they are not tripled as yet may return back and they are talking of large investment. What will happen we do not know? Ultimately we have to honor and respect the regime that they presented it. What I feel is that as a company our feeling is that probably is they focused probably I will tell. This is my personal view that they are okay with the NBFC system, which is lower in the sense Rs.25,000 Crores to Rs.30,000 Crores. They are not happy with the NBFC system which is 50,000. Then they want them become bigger bank. So we do play that way and what has happened the other NBFC and HSB as you say they have become very larger, but at the same time they are full also. As I told you these are the second division, but we are happy with the Rs.12,000 Crores and maybe we see a churn around. We will be about

50000 or 80000 Crores. We are happy with that. We are happy to grow normally. For the shareholders, they are rewarded quite well as you know share price because of our lack of intuition and market, which I do not believe in, but in place of 5:1 it is very cheap. If we look at ROE everything, it should be much higher than that. We had rewarded the shareholders and everybody. We are okay with that. We are not need to grow at three times or fives times and then collapse. That is our strategy and that you are at least we are in touch of this with the board and in that regard I want continue.

Hiral Desai: We appreciate the fact that your growing in a measured way? I understand when the environment was challenging, but if you look at the last couple of quarters at least the mortgage piece across the industry has come back, so just wanted to understand from that perspective?

Yashpal Gupta: No from that I told you are right. Mortgage industry has come back, but that has shifted from the NBFC to bank and that we should not forget. We should not look at mortgage industry as one. The insurance one and NBFC segment second. It is not to say that we are not going to grow, but I am very clear that we will grow in our own way.

Hiral Desai: Got it. Sir when I look at the regional mix also see initially obviously we had an issue with Tamil Nadu, but if I look at the growth rates for Kerala, Maharashtra, and Gujarat a lot of these states have also come off in the last three to four quarters, so anything?

Yashpal Gupta: Kerala there is no other issues. I will have to get down to that but if you look at except for this year till last year this Maharashtra and Gujarat were going well and we are not concerned with that. The growths had come down. We are not concerned with that somehow gone for ratios; we have to analyze that differently. We are away of that and I would say our position is to go higher.

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

Bunty Chawla: Thank you Sir. Thank you for giving me the opportunity and congrats on a great set of numbers. Sir in Q2 you have said that the gross NPA our stage 3 assent should go more than 4.5%? Now as the COVID impact has been clearly visible and it is almost seen in the result of 4.3% number and in fact it includes the 0.3% restructured asset as well and Q4 also historically is always the best in terms of gross NPA and in terms of collection, so in your opening remarks you said gross NPA should not come down or at least it should not improve so what should be there your guidance on why it should not go down as compared to gross stage 3 asset as compared to 4.3%, which is reported today?

Yashpal Gupta: It will go down, but as a strategy if a person who believes in promising 10 and delivering 12 than promising 12 and delivering 10, so it will definitely go down, but I do not want to say that it is

2.8% sorry it was 3.1%. So it should definitely convert to below 4.8%. In fact, we are heading below 3.5% so far on a number. So I will say it is conservative issue.

Bunty Chawla: Okay Sir and one data point if you can share as you have said proforma stage 3 asset, it is 5 to 17 million, so same proforma next stage 3 figure if you can share that number?

Yashpal Gupta: Net of provision you are asking.

Bunty Chawla: Yes net stage 3 proforma so how much provisions we should take as provisions? Is this the same number?

Yashpal Gupta: 178 is on stage 3 provision.

Bunty Chawla: Okay so number, which you have already declared in December 2020, Rs.1779 Crores right?

Yashpal Gupta: Yes.

Bunty Chawla: Sir as we have seen previously in different, different conversations you have said that we are more cautious or because of the balance transfer the growth has been slightly lower as compared to other HFCs? You have rightly said in different queries also, so if we want to grow more on the non salaried part and in Tamil Nadu where we have a more USP or we can say we have a more confidence in growing so why not we should focus on that part and we should be growing in line with the industry or better than the industry?

Yashpal Gupta: No that we will do, but as you know that everything has a limit, which has a cost in the sense, cost of operations go up, the ticket size is lower. We do whatever maximum we can do if it is not single sort of growth area. We are look for things. So that ought to do. It is not that we do not do there. We do that work. Everyday as you know I will limit. To give you an example, in a team there is Rohit Sharma and Virat Kohli is also there, so the team is strong, that way we also have a strong team.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir in your aspiration of Rs.12,000 Crores lending book going to Rs.15,000 Crores let us say in a three year phase being a single digit growth that aspiration is by design or aspiration is by the virtue of market structure or the aspiration is by virtue of market is what I wanted to understand that was point one and second at what rate is the incremental lending happening by us and at what rate is the incremental borrowing happening by us to know what is the incremental spreads in the business if you could share that?

Yashpal Gupta: As far as aspiration is concerned I would aspire to be Rs.20,000 Crores plus. As you rightly said, it is because of market structure that we are dependent on banks for borrowing and we have got higher than that and that gives Rs.15,000 Crores to Rs. 18,000 Crores, it is because of market structure. Our aspiration is actually Rs.20,000 Crores. They should note that over the aspiration. It is that we are conservative does not mean that we cannot have aspiration. The second is on the incremental cost.

Company Speaker: Incremental yield for Q3 was 10% for home loan and 13.05% for home equity loans. The total average was 10.62%.

Pritesh Chheda: What is the cost of borrowing? It was 10?

Yashpal Gupta: 10.62% average.

Company Speaker: The incremental cost of funds is around 7.1% including.

Pritesh Chheda: So the spread is at about 3.5%?

Yashpal Gupta: As we told it is including NHB borrowing. That will not be always available.

Pritesh Chheda: The total repricing whenever happens do you think the spread of 3% to 3.5% is sustainable in your business?

Yashpal Gupta: It is always sustainable. We target that, but we do repricing once in six months, if the customer going is a good customer then we do more reduction. It is a mix of the two, but according to us, we will not be in September but we target as I told you 3% to 3.25%. That is what is our philosophy. You can do at 1% also and 5% also, but we calculate around 3% to 3.25%. That thing is sustainable at least in the near future.

Moderator: Thank you. The next question is from the line of Jihan Bhada from Nirmal Bang. Please go ahead.

Jihan Bhada: Sir so I wanted to know the stressed portfolio, last quarter you had mentioned that around Rs.750 Crores of customers who are not paying, so can we have the nonpaying customer figure for this quarter and out of which how many are in NPA and outside of NPA?

Yashpal Gupta: That was not paying incorrect word because that was moratorium given by RBI. Now we have as of now so far NPA figure as on December of Rs.523 Crores plus Rs.29 Crores will be restructured so if you say not paid what more than 90 days, it will be around Rs.550 Crores. That was the NPA, but that is way of September is no longer relevant and it was collected. So all if you seeing is Rs.423 Crores as I said because that will be violation of the court order so including moratorium it is Rs.520 Crores. If we look at the Supreme Court order, it is Rs.401 Crores.

Jihan Bhada: Okay got Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen, this will be the last question, which is from the line of Aviral Jain from Siguler Guff. Please go ahead.

Aviral Jain: Sir one thought I had, I have been listening to your growth strategy and how you think about growth? Like banks are very aggressive in taking out your good assets? Is it worthwhile to explore taking out good assets of some of the other NBFCs, which you have mentioned on the call, which you are targeting 13% to 14% yield and we can have very healthy screening mechanism in terms of very high seasoning and ageing and be aggressive on taking out high yielding loans, which are very, very good payment track record?

Yashpal Gupta: In fact, in 2019 we had taken. One you said about purchasing the book side of other NBFC, we did this in 2019. We purchased about Rs.40 Crores that was pretty good, but today the market if you look at across the NBFC and you see where I am a member of NBFC counsel. I talked to them. All of them are willing to buy. Nobody is willing to sell.

Aviral Jain: Sir my question was not on securitization?

Yashpal Gupta: Whether you do securitization or assignment, ultimately buy or sell correct.

Aviral Jain: My thing was balanced transfers of other NBFCs for better customers?

Yashpal Gupta: That will do. We do that. Whatever possible we do, but of course they also tend to hold back the customers. In fact, we have launched a product for balance transfer, but we have told our branches to be aggressive in balance transfer wherever possible, but again the market has are two players only, and if you take their balance they will come back and you are saving cost and making and telling the banks are aggressive. They should not in fact and take out the loans and they propose a loan, so we do but to be frank not like this so far.

Aviral Jai6n: That is what I am saying? It is a worthwhile thought and it a product that you could launch only for low CAGR of 12% or 13% and you can offer 10.5% to 11% whatever is and you have very, very stringent underwriting criteria for that because some of these guys while they are aggressive and they are taking a lot of risks, but core of them may be 80% or may be 70% is very, very pristine and it is an open market? There is no shame in buying good quality credit?

Yashpal Gupta: It is a good idea. Definitely we will explore that. It is a good idea. We will explore that yes.

Aviral Jain: Hopefully I would be happy to hear some updates next quarter on this.

Yashpal Gupta: Good idea. We will look into that yes.

Aviral Jain: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for today, I will now like to hand the conference over to Mr. Kunal Shah for closing comments.

Kunal Shah: I thank the entire senior management team of Repco Home Finance for sharing the insights and patiently answering all the questions and thank you all the participants for participating on the call. Have a good day. Thank you.

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