"Repco Home Finance Limited Q3 FY22 Earnings Conference Call"

February 16, 2022

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MODERATOR:	**SHWETA DAPTARDAR – ELARA SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Repco Home Finance Q3 FY22 earnings conference call hosted by Elara Securities India Private Limited. As a reminder, all the participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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 Ms. Shweta Daptardar from Elara Securities. Thank you and over to you, ma'am.

Shweta Daptardar: Good afternoon everyone. On behalf of Elara Capital, we welcome you all to the earnings conference call of Repco Home Finance Limited to discuss the Q3 FY22 performance. From the management, we have with us today Mr. T. Karunakaran, COO; Mr. N. Balasubramanian, CDO; Mrs. Poonam Sen, CGM; Mrs. K. Lakshmi, CFO; and Mr. Subramanian Balaganapathy, AGM, Finance. Without taking much of the time, I now hand over the call to Mr. Karunakaran for his opening comments post which we can open the floor for Q&A. Thank you and over to you, sir.

T. Karunakaran: Good afternoon everyone and a very warm welcome to Repco Home Finance earnings conference call for the quarter ended December 2021. During the quarter, we witnessed the 3rd wave of COVID-19. The Omicron variant caused temporary restrictions in some parts of our country. In addition, the 3rd wave also caused some of our potential customers to put their plans to construct their houses on the back burner. However, the situation has since normalized and we expect business activities to strengthen going forward. Disbursements declined 9% sequentially, lowered loan disbursements at Rs. 443 crores during the quarter, and elevated repayment at 18.4% at the rate of annualized caused the loan book to decline about 1% sequentially.

On the profitability side, we reported strong loan spreads and margins at 3.8% and 5.0% which are significantly above our guided levels of 3% and 4.3% respectively. I attribute the same to our superior risk-based pricing. The profit before the provision line declined 7% year on year to Rs. 119.2 crores in Q3. Despite a higher than average provision charge of Rs. 76.5 crores for the P&L, we reported a profit of Rs. 31.5 crores. We believe that the provisioning cycle has peaked and will normalize starting the next financial year.

We reported an ROA of 1.1% in Q3 of current financial year as against 2.63% in the corresponding period of last year and an ROE of 6.2% as against 7.3% in the Q3 of FY21, we believe is an aberration and we will go back to above 2.2% ROA and above 15% ROE slowly.

GNPA provision coverage ratio before considering the RBI circular improved to 45%. Overall, ECL provisions now stand at 3.5% of the loan book.

The balance between our exposure to the self-employed and the salaried segment stood at about 51.3% and 48.7% respectively. The share of non-housing loan, i.e., LAP, in the loan book stood at about 18.8%. Cost-to-income ratio stood at about 19% in the first 9 months of the current financial year. The total capital adequacy ratio remained comfortable at 31.3% which is the provisional. Our retail network is comprised of 155 branches and 22 satellite centers. Liquidity continued to remain robust for us, as we carried over Rs. 400 crores of cash and cash equivalents at the end of December 2021. In addition, we have around Rs. 2,000 crores of unutilized line of credit from banks.

Now, I will summarize the key financial highlights for the 9 months ended December 2021 before opening the floor for Q&A.

Total income declined 7% and stood at about Rs. 982.3 crores. PAT declined 33% owing to higher credit cost and stood at about Rs. 149.5 crores. ROA and ROE stood at 1.7% and 10.1% respectively. Loan book stood at Rs. 11,785.7 crores. Core profitability remained strong with strong spreads and margins of 3.8% and 5%. NPA before considering the RBI circular stood at 4.6% having risen marginally from 4.3% in September 2021.

I am happy to announce that Mrs. K. Lakshmi has joined the leadership team of the company as CFO. In addition, our new MD and CEO is expected to join us later this month. I thank all of you for joining the call. Happy to answer your questions now.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles. The first question is from the line of Akash Jain from MoneyCurves. Please go ahead.

Akash Jain: I have a couple of questions and please pardon the frustration of some of us as investors because I think there has been a lot of disappointment on the growth front over the last many quarters. Every quarter in the con-call, we have been guiding for Rs. 600 plus crores of disbursement in the quarter, and every quarter subsequently, we have had disappointments. I am just trying to understand where has the gap been? Whether it has been a problem with the assessment of what is on the ground from the management team or problems arise which you had not anticipated? Because every quarter in the last few quarters, we have guided for growth in the subsequent quarters that has not come. I am not really able to understand what is happening. Why is the actual number so different from guidance every quarter after quarter on growth? That is one part, sir.

The second part is on provisions. There has been obviously an RBI mandated change which obviously today they have come back and said that you have more time to implement it, but how much of that provision has impacted the provision for this quarter? The reason I am asking for is because currently now the provision is based on ECL, right? Even if the headline GNPA number is higher, has it translated into higher provisions because of the change in RBI norms? And if the RBI norms would not have changed for this quarter, would the provisions have been lower? And just a connected question to this is, given the fact that this is going to anyways be implemented in a few quarters from now, are we making changes in terms of our collection process or educate our clients in terms of trying to change the whole process of collection so that the headline number doesn't look so high when it is finally implemented?

Management: I will answer the second question first. On a Stage-3 to Stage-3 basis, our incremental increase has been around Rs. 45 crores. Assuming a coverage ratio of 45%, the provision would have been around Rs. 20 crores and not Rs. 76 crores, to answer your second question. Of course, the incremental provision would have been a lot lower.

To answer your first question, we were in the phase of transitioning. We have tightened our credit norms and we were doing less risky loans when this COVID pandemic hit us. We are at a stage where we are not able to go back, not able to move forward as well, which is why our disbursements have been subdued. But we hope that with the management change, the disbursements will come back to pre-COVID levels from Q2 of next financial year.

T. Karunakaran: We have seen some positive signals from our field. Logins are improved and we are expecting sizeable disbursement in the current quarter.

Akash Jain: Did we take a more risk-averse approach in the last few quarters? Because we have been one of the few HFCs which have had a challenge on growth. A lot of other NBFCs and HFCs are also talking about the balance transfer out to banks and are suffering because of that part, but to us, at least our company has suffered lot more than the other HFCs that I follow. I don't know whether that is particularly an issue with our kind of customers and the fact that our rates to our customers were higher, so they are more lured by lower rates of banks because our rates are certainly on the higher side than other HFCs that I follow.

Management: It is more to do with our assessment of the situation. We did not expect things to normalize so soon, which is why we were cautious with cherry-picking loans to put it simply.

Akash Jain: Because of the deferment of the NPA norms for a few more quarters, are we going to write back the provisions we have made in this quarter in the subsequent quarters or the incremental provision will then adjust accordingly?

T. Karunakaran: No, we are not going to make any reversal in provision in the current financial year. We will review the situation in the next financial year in Q1. Based on that, we will take a call. Right now, we don't have any plans to reverse the provisions.

Akash Jain: You didn't answer my question in terms of the process so that when it gets implemented after a few quarters, do you see the elevated levels of GNPA to be there or the collection process will be tightened such that the GNPA doesn't go up when the norms get implemented?

Management: The collection process will be tightened, but it is very hard to say now where the number will land up. But in terms of peaking out, the number has peaked. 7% is the outer limit.

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

Sarvesh Gupta: Sir, as you just said that you have been cherry-picking the loans, but last quarter when the call was held in the middle of last quarter, we were told that Q3, the disbursements are going to be around Rs. 1,000 crores, not just for Q3 but also for Q4. And that was when half of the quarter had already passed. Now you have posted a number which is like 45% of the guidance for the full quarter. How do you read that sort of a statement coming out of your company wherein when 50% of the quarter is gone, you are guiding for a number which you are not even able to achieve 45%? You are behind by a large margin. Obviously, I don't think that you were in a mood to cherry-pick when you said that.

Second is, you had also said that 3.5% is going to be the gross NPAs for the end of this year. Again, this was the guidance made in the last con-call itself. And you are saying that the economy has normalized much faster than your expectation. Still, even if you look at your non-RBI gross NPA numbers, they have actually gone up. How do you make sense of your statement that economy has normalized but your gross NPAs have gone up significantly in a matter of 1 quarter?

Management: There is a seasonal color to our asset quality which is why the NPAs went up slightly to 4.6%. However, we expect the pre-RBI numbers to come back below 4% in Q4.

Regarding your first question, that was an internal target given by our old MD Mr. Gupta spelled out. Our guided target was not Rs. 1,000 crores. It was more of around Rs. 600 crores of which we have fallen short. Yes, we agree.

Sarvesh Gupta: Sir, but what are the reasons behind it? Why are we consistently falling short of our guidance? Is it because on the ground, we are not able to capture the customers or is it because we feel that our strategy is wrong? Because earlier also in one of the calls, it was said that now we will be focusing more on growth than margins, but still we see the NIMs are inching up but your growth is lagging behind massively. So, is it a result of your wrong strategy or is it because of the lack of execution on the ground or is it because something else? Because ultimately the numbers are telling that the performance is very very very poor. If that is the case, then if we are cherry-picking and we are not growing, then at least our gross NPA number should be looking good. But I don't think in the last 2-3 years, you have seen any benefit. Even from last year to now, there is no benefit on the gross NPA number. If you are cherry-picking, then gross NPA number should improve. That is also not happening. If you are not cherry-picking, then growth number should improve. That is also not happening. So, what is happening, sir?

Management: Asset quality performance of the book built after 2018 is excellent. The NPAs are lower than 2%. It is the book built before that, that is creating temporary problems. As we have demonstrated again and again, we don't lose money. We have not lost much money in our business. We have lost around Rs. 9.5 crores till date. So, we are confident of recovering our money but with a time lag.

Sarvesh Gupta: My question is basically is it a lack of execution on the ground or a wrong strategy?

Management: As we alluded, we were in the phase of transition when this COVID pandemic hit us. We have tightened our credit norms, credit policies as well. We were cherry-picking our loans. And now we are at a juncture where we are not able to go back nor move forward. We hope that this phase will be over in the next couple of quarters, and you will start seeing improvement from Q1 of next year.

Sarvesh Gupta: Sir, when you have hired a new top management in terms of both CFO and CEO, you obviously would have had some discussions to understand how the strategy should be going forward. If you can elaborate a little bit on what is the thought process of growth and margins and how do you plan to grow? Is it because of more branches? Is it because of something else which needs to be changed? I think previously we were also trying to change a lot of internal processes. I don't know what happened to that and where do we stand there. If you can at least give some thoughts on how you are going to do things differently which will lead to different results? Because obviously, nothing has changed in the last many quarters.

Management: One reason that we have found out is our ticket size has not grown at all even though loan accounts have grown. One thing that we are looking to do is to increase the ticket size slightly by 4% to 5% per annum. Second is, we hope to do business with larger DSAs. Today, we are working with smaller DSAs. Larger DSAs will have access to better accounts and a large number of proposals. We hope to tap that. Plus, the new MD will bring his own ideas which we will implement.

Moderator: The next question is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: A couple of questions from my end. I think in the previous call, you had guided that by March 2022, you would be around at Rs. 13,000 AUM mark. I am assuming you have missed that target. Is that the right assumption?

Management: Yes, by a mile.

Saurabh Dhole: The second question is on slide No. 13 of your presentation where you are talking about the provisions for Stage-3 . What I am unable to understand is, how is that the Stage-3 provisions both post as well as before RBI circular is the same.

Management: Total NPA provisions is the same.

Saurabh Dhole: But that doesn't seem right. So, what I am trying to understand is that the assets that have come into Stage-3 under the circular, which is Rs. 823 crores which is of course higher than Rs. 547 crores, so the additional assets that have flown into the gross Stage-3 should also change the provision figure also, right, Stage-3 ECL provisions?

Management: But we will have to account for that provision in Stage-3 , right? Because we are reporting as per IFRS. You have to find a way to accommodate that also, right?

Saurabh Dhole: What I am trying to get to is the net Stage-3 number which is up to gross Stage-3 minus the provisions.

Management: As a matter of prudence, we provided more as per ECL.

Saurabh Dhole: But sir, the point is that if the new assets are flowing under gross Stage-3 , the provisions that you carry on these new assets should also get added to the ECL provisions Stage-3 figure, right?

Management: Stage-3 as per the RBI circular.

Saurabh Dhole: So, why hasn't the provisions figure changed?

Management: The provision is the same. What we are trying to highlight is provision as per the new circular is this and covering is 30%. Had there been no circular by the RBI and had we increased the provisioning, our coverage would have been 45%. That's what we are trying to highlight. That's it. It's not that the same provision is there for both.

Can you take this offline please?

Saurabh Dhole: Yes.

Moderator: The next question is from M. Agarwalla from PhillipCapital. Please go ahead.

Manish Agarwalla: A couple of questions. One is about your borrowing cost. How should we look at your borrowing cost going ahead? Given the fact that in this quarter, we have seen an increase in cost of funds sequentially whereas most of the peers have continued to show decline in cost of funds and this is against the backdrop that your total borrowing continues to come down. Can you try to enlighten us?

T. Karunakaran: Right now, our borrowing cost stands at 7.10%. We are not expecting a significant increase in the current quarter.

Manish Agarwalla: Incrementally if we were to go to the market today and borrow, what would be that cost, sir?

T. Karunakaran: It will vary from bank to bank. Right now, on an average, we are borrowing at close to 6.9%.

Manish Agarwalla: Next question is about; can you quantify your stage 2 assets and corresponding provisioning?

Management: We are not disclosing that, Manish.

Manish Agarwalla: Other thing is about in the slide where we have given a segment-wise GNPA which is based on pre-RBI circular, can you give the same number based on current status?

Management: That is, post-RBI circular, right?

Manish Agarwalla: Yes, post-RBI circular.

Management: For housing, it will be 6.3%. For home equity, 10.2%. For salaried, 3.8%. For non-salaried, 10%. Total being 7%.

Manish Agarwalla: In your OpEx, is there any one-off there?

Management: We did CSR spends of Rs. 1.8 crores this quarter. Our CSR spends are back in date, not throughout the year. That is responsible plus….

T. Karunakaran: We have seen some increase in the traveling cost. Last year, because of pandemic, there was not much travel. This year, we started traveling. We are visiting branches and we are conducting a lot of training programs. So, traveling cost is slightly higher compared with the previous period of the same year. As Bala rightly said, COVID also we made a substantial provision in this 9 months period to comply with CSR new guidelines. These are the 2 items which caused a slight increase in the administrative cost compared with the previous year.

Manish Agarwalla: Finally from my side; has there been any impact on interest income because of this NPA recognition? Because your interest income has come down on a sequential basis. So, just trying to understand if there is any readjustment there?

T. Karunakaran: We are following the Indian Accounting Standard. There is no impact on calculation of net interest margin. We have not reversed any interest income.

Management: To the extent we have provided Rs. 76 crores, we have not booked any income on that.

Moderator: The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: With respect to the appointment of CEO, if you can just let us know the process and maybe what board would have really looked into at the time of appointing and maybe between the internal as well as the external, how should we expect as it's going to come very soon as early as the next month?

T. Karunakaran: We will discuss this offline, sir.

Kunal Shah: The overall thing was maybe in terms of the growth. Obviously, most of the questions are around growth. So, just wanted to get a sense in terms of under the new management, would there be any change with respect to the growth strategy? And in fact, even on the growth, would there be any differentiations between the way we used to approach the salaried versus the non-salaried? Would that tend to change or maybe in terms of slightly lowering the rates and getting equally competitive? What could ideally be the strategy out there?

Management: Kunal, we feel it will be better if the new MD talks about these things. It's a question of waiting for 3-4 weeks more and we will organize a call, hopefully, because it is very difficult to answer on his behalf.

Kunal Shah: But I think maybe board's perspective would also be helpful. When they were selecting the candidate and maybe not sure if he is coming from outside, then would it be more from private entity or public entity, that would also help a bit if that can be explained?

Management: But none of us are privy to whatever happens inside the boardroom.

Kunal Shah: Secondly, in terms of now with the RBI clarifying this and we have made 25% provisioning on the incremental pool, ideally, what would be the stance going forward for the next 2-3 quarters? I don't know if I missed that, but would we look at maintaining that provisions? Would we likely reverse it? What's going to happen with that pool which has got created? One last question is, any pool wherein there could be further write-offs which can be expected over and above what we had seen it in Q3?

T. Karunakaran: Right now, we don't have any plan to reverse the provisions whatever we have made till date. We will review the situation in the next financial year Q1. Based on the developments, we will take a call on the reversal of provisions. Write-offs, right now not in a position to make any comments.

Kunal Shah: What would be the overall pool? Maybe there was some stress which was there in the earlier LAP book. We always highlighted that the focus is on the recovery invoking the SARFAESI and maybe getting the money back, but there are still some write-offs which have been happening. So, is there a scope for further write-offs or maybe we should see the recovery coming through? What would be the stance on that entire stress pool, which is largely provided but the only thing to know is maybe whether it will be a write-off or a recovery over a period?

T. Karunakaran: This quarter, we have done a technical write-off of about Rs. 40 crores. It is only a technical write-off. If you look at the actual principal write-off last 20 years, we have done to the extent of only Rs. 10 crores. Out of the total disbursement of Rs. 26,000 crores, Rs. 10 crores is nothing. We have made sizeable recoveries in technical as well as the financial write-offs. Yes, we are having a set of pools consisting of about Rs. 10-12 crores that we have identified already for technical write-offs. Depending upon the numbers going forward, we will decide.

Management: It is not pre-decided.

Kunal Shah: But maybe nothing as high as Rs. 40 odd crores which was done this quarter; it would be like Rs. 10-12 crores or so. Nothing major left out there?

Management: Definitely not.

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

Sarvesh Gupta: Sir, just one clarification. On provisions and write-offs for quarter 3, you are saying against Rs. 17 crores that we had last quarter, if RBI circular would not have come, you would have given a number of around Rs. 20 crores here. Is that right?

Management: Correct, thereabout.

Sarvesh Gupta: So, Rs. 56 crores is the addition because of the RBI circular?

Management: Correct.

Sarvesh Gupta: What would be the interest reversal because of the RBI circular?

Management: Under IFRs, we are allowed to book interest on loan accounts, net of provisions made. So, incrementally we have made around Rs. 76 crores of provisions. So, we will not have recognized any income on that.

Sarvesh Gupta: You haven't recognized the income on the incremental NPA pool, right?

Management: Not on the incremental NPA pool. I am talking about the incremental provisioning pool.

Sarvesh Gupta: But what would be the impact on the revenue line because of this RBI circular on quarter 3?

Management: Under IFRS, in the previous year, we were not supposed to recognize income on non-performing assets. But under IFRS, there is no concept of non-performing assets. So, we recognized income on all assets subject to net of provisions.

Sarvesh Gupta: So, the total impact just to understand, if RBI circular was not there, the total impact on your PBT is Rs. 56 odd crores?

Management: Yes, correct.

Moderator: The next question is from the line of Anuja Dighe from Elara Capital. Please go ahead.

Anuja Dighe: I just have 2 questions. First is about the customers which have led to the asset quality deterioration. What is the profile of this customer? Is there any geography-specific concern? Second question is actually about the overall loan book. What is the share of fixed rate loan book in the book? And can you give us some guidance about the lending yields? What do you think, where will they go going forward?

T. Karunakaran: NPA, it's a mixed ratio of salaried as well as non-salaried. If you want in terms of percentage, I will give you. As of 31st December end, out of 7% of gross NPA after effecting RBI circular, salaried class accounted for 3.8% and non-salaried class accounted for 10%.

Anuja Dighe: Second question is about the fixed rate loan book in the overall AUM. What is the percentage of fixed rate loan book and floating rate loan book?

T. Karunakaran: We don't have any fixed rate loan book as of now. Our entire loan book is benchmarked setting off floating interest rate.

Anuja Dighe: Also about the margin improvement. We are seeing a marginal improvement in our NIMs. How sustainable is this improvement?

T. Karunakaran: Right now, NIM is at the 5%. It is not sustainable. On an average, NIM if you look at the last 8 or 6 quarters, it's close to about 4.2% to 4.6%. Going forward, our NIM number will be in the range of 4.2% to 4.5%. This existing 5% NIM is not sustainable.

Management: It will not happen immediately, but our long-term target is to achieve a NIM of 4.3% to 4.5%.

Anuja Dighe: The last question is about the ticket size. You have mentioned that the average ticket size has not grown in the loan book, but what is the exact average ticket size at the moment?

Management: It's around Rs. 15 lakhs for the books.

Anuja Dighe: And what was this last year same quarter around?

Management: It was the same, Rs. 14.6 lakhs.

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

Management: Thank you for joining the call. We look forward to interacting with you again. Have a good day.

Moderator: Ladies and gentlemen, on behalf of Elara Securities India Private Limited, that concludes today's conference call. Thank you for joining us, and you may now disconnect your lines.