

Transcript of ICICI Pru

Questioner: I don't know where to find it.

Management: It is there.

Questioner: Okay, I will give lot of people are now like [inaudible 0:00:12] and you will see that. So, tell me sir. How is the industry doing now? One player has gone away from affordable housing it seems?

Management: No, they won't.

Questioner: Sir have a tea, coffee or anything?

Management: I don't mind a coffee.

Questioner: Black coffee?

Management: Black tea without sugar. I don't think they will exit. I think the promoter will still want to do it.

Questioner: Affordable housing. You think that they are driven enough that they will do this business?

Management: No. They will get somebody who will do it. Something they will do, it's not that they are not there. It's just the repackaging and putting into the name and all those things. In fact, they were doing somewhat, isn't it? And now they have got how many branches? So many branches have been opened exclusively for this. So, what will they do? They will have to continue. In volume the productivity, the kind of norms, the policies might change a little bit, but they will continue. They have opened so many branches.

Questioner: I understand. And how is our endeavour coming, sir? How is the Bangalore market stabilising now under e khata issue?

Management: It's still not improving, but we are still at INR225 crores. So, Bangalore market is definitely, we are still maintaining and making. In May, we also did more than INR200 crores. June, July both, we have done INR225 crores plus. So, that stability is there, but obviously by now we should have reached INR300 crores in Bangalore market. That is, Karnataka should have been delivering INR300 crores, because we were already at INR275 crores last year in H1, in Q2 of last year.

So, we should be doing around INR300 crores, but we are at INR225 crores. So, at least, there is no negative growth. On a monthly basis, there is a INR225 crores disbursement in Karnataka, even in June, July and April, of course, was not available.

Questioner: So, we should talk of Bangalore separately or we should look at Karnataka?

Management: Karnataka, but mainly see out of 43 branches, you can say Bangalore and extended Bangalore is only about 35 branches. Other than that, it is not, I mean, you can say probably up to Mysore,

if you exclude Mysore and all also, then maybe there are also 28 branches are there. And the majority of the business of Karnataka happens in these places only.

Questioner: So, 35 out of 43 branches of Karnataka are in Bangalore and Mysore?

Management: Bangalore and nearby, Bangalore and Mysore are in the belt only, extended Bangalore, right up to Devanahalli on this side, Hosakoti on this side and you would say probably Magadi Road on this side, and so on. Sarjapura, Sompur on this side. So, basically maximum branches are there and majority of the business happens from there.

Other than that, we have, of course, Davanagere, Tumakuru, and Hubballi and Velvadam and Kalaburagi and a few branches which are very small and not doing very small portfolio contribution. But the majority is basically Bangalore and extended. And so basically, it's holding up. There is no negative. I don't think it will be there. A little bit of improvements month-on-month is coming.

So, even at this state of improvement that we are doing, we would be ending up with 10%, 15% growth in Karnataka also by the end of the year. If, of course, this comes the earlier it comes, the improvement in e khata the better for us because then we will be able to quickly take it up to 275 and 300. Otherwise, in the current 225 level, which is the average of last year, we are already still there. And then 230, 240 also, if you start doing that is what...

Questioner: But H2 of last year or Q2 of last year was 275?

Management: Q2 of last year. So, in H2, we straight fell down to INR150 crores and then we picked it up a little more in Q4. And therefore, we ended flat for the year almost just about some 2%, 3% on the both of them in Karnataka. And now other thing is Telangana market, one we are seeing some stability in the prices, some improvement in price also because after this issue of demolition and everything, we had that price also came down in some markets and delinquency also was slightly limited.

Now, what has happened is now, price stability has come. Some of the areas prices are going up also a little bit back to the older level. So, now, confidence is coming back. Our numbers also, month-on-month in Karnataka and Telangana are improving and this month we should even be crossing INR100 crores and expecting the way it is there. Our delinquency in Karnataka, I mean, sorry Telangana in March whether in June we have no flow at all in [inaudible 0:06:13].

We had a reduction in Q1, we saw reduction in NPA in June and now again in July further reduction in NPA is happening. Delinquency, overall absolute value of delinquency in SMA 0, 1, 2 and NPA put together in Q1 was lower than March. So, June was lower than March including in Telangana.

Across the board we had a reduction of over INR280 crores in delinquency out of which this was spread over all the six zones. It's not that one zone reduced and others increased. All six zones we saw reduction. Even further in July compared to June also there was a reduction in delinquency. So, it's all falling in place. Other zones they have continued the same growth.

In fact, East zone which is mainly Andhra Pradesh for us not a very large number it just contributes about 8% of our incremental business, but still there we have now seen a growth. Last year there was first Q1 was negative, but in this quarter it is a positive because the graph after the change of government has been improving confidence is improving there also it is positive. So, this quarter our East zone numbers are also 40% positive. North zone continues to improve.

Questioner: On the book it looks like in stage 3 was of 10 bps right?

Management: That is only NPA we allowed something to flow. Stage 2 was flat and stage 1 there was a substantial improvement. So, if you see in December our total delinquency including zero plus was INR4,880 something crores. In the month of March it came down to INR4,269 crores or something.

In June it has come down to INR3,979 crores almost INR280 crores reduction. In July it has further come down to below INR3,900 crores. So, that is the kind of thing. So, delinquency is completely coming under control. While in the last two quarters the major reduction was seen in SMA 0 now even in SMA 1 and SMA 2 this quarter we will see some reduction as already started in the month of July. So, because once you cut from the bottom the load on the higher buckets will further reduce.

So, that is also will be steady witnessed in this quarter. So, in terms of delinquency we are across the board in Q1 it has come down and in July also it is looking better. Disbursement also, four zones out of the six are doing better and the remaining two zones that is Karnataka, Telangana, month on month there is an improvement.

We are already at INR225 crores under it in Karnataka and Telangana this month we should be doing little more than 100. So month-on-month if it keeps increasing we should be able to have our 20% growth in Telangana also. Last year we did only INR1,198 crores in Telangana for the whole year. This year the rate is we are predicting around INR1,400 crores.

Questioner: Sir, this time was a 9% disbursement growth and if I remember from your PPT you had gone back up on the DSA channel a bit, right?

Management: No, this quarter from 80% in March it has come down to 79.5%. March is on reduction. Only in Q3 of last year in December.

Questioner: There is a significant dip?

Management: There is a significant dip in that, but in the quarter it went down to 76%.

Questioner: Sir, your branch is basically like a 4% branch that is how it should be thought of?

Management: Kind of.

Questioner: And what do they do at the branch level? Does everybody do everything or is it like...

Management: No, everybody does everything. Only now we are slightly identifying separate sales team. So their team, their KRA and everything will be only sales. And to see that they don't know, we are also moving them out of the office work so they will be on a tab and out of the pre-lab sourcing business.

Questioner: But will there be new people coming in or the same people getting combined?

Management: We have internally also more people and in some cases we have also taken them outside.

Questioner: Okay. And sir, we saw a lot of this quarter we saw a lot of micro-lab and all those issues showing up. I don't know how to define the issue to be honest. Is it an issue? Is it a contained issue? I don't know. It has seen a significant growth in the last 3, 4, 5 years. That is for sure. So what do you think is the impact on your portfolio? Do you have MFI overlap?

Management: I don't think so. See over a period we have been seeing that today also 84% of our loans are having CIBIL score of more than 70 incrementally and what we are doing. Our average ticket size if you look at it is about INR24 lakhs. So definitely a INR24 lakh means monthly.

Questioner: And that is on the book. Sourcing is above 33, 35?

Management: Now in fact our 30 plus sourcing has increased. You see up to INR10 lakhs, INR10 lakh to INR20 lakhs the incremental sourcing is coming down whereas 30 plus is increasing. So obviously this would be less.

Questioner: But what is the ATS on sourcing?

Management: ATS on sourcing.

Questioner: This is the book INR24 lakhs because earlier we had almost INR19 lakhs. I remember when I started covering it was INR19 lakhs. That's come to 24. So basically the sourcing will be like 30, 35?

Management: No, incremental sourcing is 24 and 14.

Questioner: Okay.

Management: Incremental sourcing would be 14.

Questioner: So on the book what is the average ticket size?

Management: On the book if you look at it today.

Questioner: At origination?

Management: At origination I will have to see. In the books obviously I can look at it. But then on the origination as per the origination I think we will have to just work out.

Questioner: But right now on origination it is 24 lakhs?

Management: 24 for housing and 14 for non-housing.

Questioner: And open market LAP has started?

Management: Yes, we have started. That is why if you see throughout if you see till March 24 our incremental business ATS for non-housing was INR8 lakhs. Now it has increased to INR14 lakhs mainly because you also started fresh LAP for on a started on it.

Questioner: Okay. And LTV what is it now?

Management: We limited to 60% LTV.

Questioner: In LAP?

Management: Maximum with some deviation we might go to 70%.

Questioner: And fire etcetera?

Management: That is 50%.

Questioner: And how do you see the general health of these borrowers? I mean even we see a lot of these issues percolating into IT industry, tariffs or SME's are doing badly or expected to do badly. How do you see that percolating into this?

Management: Today 14% of our home loans are government employees. There is absolutely no risk on that. Our IT exposure is about 6%. Now 6% is something which is not a very big number, but yes if that is some number we will have to do. But obviously this is not a number which will hurt because so much because even if they do not all of them would have been originated in the last one year.

Considering the kind of salary levels of the IT sector our loans to them would not be a very large number. So I don't think getting a 30,000 EMI or 35,000 EMI for that salary even with a slight salary cut will not be a problem. That is one. The other thing is the private sector employment salaried segment within the private sector is around 51%. That break up we don't have.

But again I would say since we have been looking at a proper salary, PF deduction and all those things and a CIBIL score of 700 plus at least that may be temporarily at most if something happens because no crisis will continue for life. It will be a three, one quarter, two quarter there will be sentiment issues, some losses, but it should come back.

But considering the kind of CIBIL score it clearly shows the intention of the customers. So it may not be a long drawn even if it is all [inaudible 0:14:54], but don't know. I mean so far at least it is not affected.

Questioner: But then as of now what you were guiding on the call I think INR26 crores provisioning and rest of the year we should end up with about INR40 crores, INR45 crores at max?

Management: So credit cost definitely last year was 13.

Questioner: Very comfortable.

Management: Because as I said further in fact it is coming down our delinquency and I still see a scope to further reduce because what has happened last two quarters whatever improvement you have seen this in the SMA 0. Now that SMA 0 has come down from almost INR2,500 crores to INR1,400 crores. The impact on the SMA1 and SMA 2 will be much less. So there now whatever result we see we will now start seeing the result in our SMA 1, SMA 2.

Questioner: This SMA 1 was actually the technical issue?

Management: That was SMA 0. So we in October we introduced that excess EMI you cannot contain, you have to credit interest to the principal. Suddenly the check bounce which was INR770 crores figure we had indicated at that point in time.

Now that INR70 crores almost came down in the Q4 itself where from 4,880 come to 4,200 and something. So that INR6,000 odd crores we were able to recover there. Further we have been able to recover in this quarter also. Therefore, it has come down to the INR3,980 crores. And now this reduction will now impact our SMA1, SMA 2 etcetera.

Questioner: So sir disbursement growth how should we think of this year?

Management: This quarter we are looking at around INR2,500 crores. Next quarter ideally it should have been higher than INR2,500, but because we have a IT transformation implementation which is scheduled in November I mean we would still next quarter also target from the INR2,500 numbers.

So then we will have to cover about INR3,200 in the last quarter to maybe 10,500. This quarter we have already done 800 plus little more than INR800 crores in July. So therefore INR2500 is very much on the cards. Normally July if the first month after the quarter is a little dip, but this month also we have done INR800 crores.

Questioner: Anything specific to read on the repayment rates or it is fine right now?

Management: As of now, I am not here in the branch whatever I discussing nothing much of a pressure. Yes, there are people who are asking for it, but we have already demonstrated it two times reduction. First 10 bps in May and another 15 bps in July. So we generally tell the customer that as and when we get it, we will pass it on to us.

So people are holding on as such boys are not. Initially, when we did the 10 bps and thereafter others did 25 bps, there was a little bit of hesitation concern, why only 10 bps and now. But then when we passed on another 15 bps, now it's cooled down. It's, I mean, now at least the last one month that I've been meeting the teams across I don't hear.

Questioner: So, total you've passed down 25 bps?

Management: 25 bps existing customers as well as new customers.

Questioner: 25 bps out of the 100 that has been cut.

Management: Yes.

Questioner: And I think but mostly PSU banks and all have cut already?

Management: 100 bps.

Questioner: So what is the starting rate for you now?

Management: This 8.7 is the lowest. We are 8.95. We are at 8.7.

Questioner: Huge delta.

Management: There is a huge delta. Again banks they are not pushing and private sector banks have not reduced as much.

Questioner: Where will be private sector banks on average?

Management: Private sector banks will be at around 8 only. They quarter rate, but then I think by the time the rates are still at 8%.

Questioner: But the starting quote is at 8 for private sector banks?

Management: And then if you look at it again now on ICICI bank again, 50,000 you can have savings bank account average balance. That is how we have to develop, that is how we can answer people also our customers. Everybody has to find their own ways, obviously. It's a clear thing today.

Frankly, rate cut which after the EBLR regime has come for the first time is something which nobody has imagined or handled before. So this is something which, because on paper if you look at it 130 basis points difference between a PSU bank rate and an over rate is pretty large and should be enough to sway anybody.

But then 740 also what is being offered everybody knows that how painful it is to sustain that today. In today's scenario, maybe a year down the line when the deposit rates and the costs have come down, then maybe that 7.70 may not hurt, 7.40 may not hurt as much, but today definitely it is hurting.

Questioner: But how is the competition reacting the other HFCs?

Management: Only LIC has also reduced by 25 bps as us. Nobody else has induced on us. So they have also come out. [inaudible 0:20:52] hear, but I do know frankly. Somebody told me that they also said that they have reduced, but there is no other information on the ground or on the list.

Questioner: And how should we think of the cost of funds for you?

Management: See, cost of funds today we are getting incrementally 7.25 is the highest rate at which we are raising from banks long term. CPs also we are, CPs we have raised at below 6%, 5.9% it is leveraged for 90 day CP. NCBs also we are getting increase [inaudible 0:21:40]. So this is the kind of rate. So our incremental today would be around 7.3% should be the rate because we still

have one NHB has not reduced. It has not been announced from 1st of July they have reduced 30 basis points.

So as and when the reset cost will get triggered, we will get the benefit of the 30 basis points or the NHB funds. Second thing is on the bank, we still have one large bank where we are yet to get the benefit of the June rate cut. So that is another INR2,500 plus crores. So that is another thing which is yet to be experienced.

So today our blended cost borrowing which was 7.55 has come down to 7.25 or 27 is the rate. No, that is the experience in the books. I am saying incremental. In the books as in what I have experienced the first quarter obviously is a little higher 7.47.

Questioner: 7.55?

Management: 7.55 is for the entire year of last year. In the first quarter, it 7.47 because many of the rate cuts actually happened on 30th of June. But going forward from 1st of July, I have to look at the rates, it is 7.27 or something.

Questioner: But on the stock or incrementally?

Management: Incrementally, I will be servicing only 7.27.

Questioner: So on the stock right or on the whole stock?

Management: On the whole stock I am talking about.

Questioner: So but then your borrowing rate now should be much lower. I feel when you are saying incrementally you raising fund by 7.25. That's a rate high. I think I read in LIC?

Management: So today it is 7.25 is the highest rate at which I borrowing either from banks or NCDs. CP is even lower. So lowest rate is lower.

Questioner: In terms of the bank?

Management: Bank I think is 6.85.

Questioner: It makes more sense. So LIC [inaudible 23:45] 6.97 incrementally?

Management: 6.85 is the lowest cost term loan that we are raising.

Questioner: But on a blended basis incrementally when you raise money. Let us say you have raised 100 capacity and now you raise INR10 more in this quarter or whatever you are raising now, what is the cost of fund on that blended, should be 7 I feel not 7.25?

Management: It will be 7 possible because as I said our CPs are at even lower some of the bank borrowings are below 7. So blended would be around 7.25 or something.

Questioner: No it won't be 7.25?

Management: 7.25 is on the whatever is the existing whole stock.

Questioner: 100 to 725?

Management: That is correct.

Questioner: And the 10 that will come should be at 7 or below?

Management: Yes, that is correct.

Questioner: Sir to support the disbursement what should be the expectation on opex because I think year-on-year we had a big jump 40% jump?

Management: Yes, this time we had a jump compared to June, but not as much compared to our March number because you know last year in June we did not have the 6 zonal offices, we did not have the 25 branches that we opened all of them opened later on. So during the year as and when we added those branches we started getting the cost of the branches also and secondly there was a 17% increase in our staff number during the year which also for a period has come about and second thing is we gave our staff salary revision we brought in at very end of June we introduced it, but it was with effect from first of April.

So obviously therefore the full quarter it has happened. So even up to the month of May or something when we were meeting we were not disclosing this or anything because it was still under the discussion what will finally be agreed and all. but it happened at the very end of June, but it was effective first of all. So, that was one area where we have done it. It was a more of a decision to basically and to support our staff recruitment in the senior and middle management because that is one area where we were having some difficulty.

So now we will be able to give ourselves lot of flexibility to get good talent even in the middle and senior management. That is one thing. So that has been there and out of that also mainly if you see our salary cost in Q1 of last year was around INR23 crores or something which shot up to INR40 crores.

Majority of that up to INR5 crores or something was mainly because of the actuarial valuation which is there. And another INR3.5 crores, INR4 crores because of leave benefits and all those cashments and all those things for which you have to make a provision. Now obviously these two component will not have the similar impact on the next quarter also because so next quarter that is in Q2 probably that 40 incrementally will not become 80, but probably will become 73 or 74.

Questioner: We hear your opex this year should be around INR300 crores?

Management: It could be a little more. Last time it was around 255.

Questioner: 238.

Management: 238. So main main increase is going to be.

Questioner: 20% growth year-on-year. This includes all the IT expenses also right?

Management: IT expenses, of course, is getting capitalized because whatever you have done. Effectively it has only on 1st of April onwards.

Questioner: Then it will be some depreciation or whatever?

Management: No, right now whatever we are spending on the IT project cost will get capitalized, the depreciation will also start from next year. Depreciation and opex both.

Questioner: And what are we upgrading LOS and LMS both are doing?

Management: Everything LOS, LMS, account GL package, deposits package, HLMS package then we are going for this on the infra side we are going in for we already have a SOC, but we are going for NOC with [inaudible 0:28:38] and all those kind of security features then waste of management all those things then on the infra side we are upgrading from with a much higher capacity of load bearing this capacity on the server side and all those things.

Even on the bandwidth side, are increasing to almost doubling the capacity of the bandwidth for connectivity. Third thing, we are going from a normal MPLS connection to this SD-WAN setup. So this will bring in security as well as some of flexibility. So that also we are looking at it. So basically all those things.

Questioner: But how much time will this take to implement sir, November one month it will be done?

Management: So basically there are two parts to it or rather I would say three parts to it. First part is the treasury or ALM borrowings that platform which is going to go live in August and September. So 30th September these modules all the reports everything will be generated from the new system module that is happening on September.

This is obviously nothing to do with the branches because all these packages are right now doing manually and these are all more from the reporting part of it for regulatory kind of things. These will be from the system. Then we are having a November time line for implementation of our LOS, LMS, deposits, account, GL and our DMS.

Questioner: For November time line, it started already and ending in November?

Management: Already started and ending in November. November it will be implemented.

Questioner: So, when we did the Q1 performance whatever you have done that time also some implementation was going on?

Management: Implementation as in at that time the fit gap analysis was happening the user requirement specification and all those things was happening. SD-WAN already in Q1 it has happened in fact SD-WAN we have already implemented across.

Questioner: What is it?

Management: Basically it is for connectivity right now we have MPLS separate and we have separate internet lease line so you have to manage shift and it moves all those things. Here SD-WAN means if you have setup you can plug in various multiple connectivity modes it will have more monitoring abilities and all those things.

Questioner: So, from Q2 onwards the implementation has started?

Management: Already Q1 itself started as some of it, but it is there and all this like this user requirements, our documentation, our sharing our policies, creation of master creation, some part of the migration or mapping the migration part of it, strategy for migrations, some of the document execution and all for all these UDAI agreements and all, everything was already happening from February onwards and it is already also happening during the first quarter of the year.

But last year itself what we did was we set up a separate department called project implementation department or project implementation team which includes people from head office, which includes some of the people from the branches also. They were all pulled out and put in a separate department.

So today whatever this requirement specification or fit gap analysis or evaluation of the modules, the new requirements that are there, the policy sharing of the policy and process documents, master creation, everything is done by this team. Our branches have not been impacted at all.

The branches are continuing to work in the existing system without any intervention or without having to contribute into this because all these are already done. The branches will come into the picture only when in October we will be implementing, starting the training sessions. October onwards in batches we will be starting the training sessions for all those things. And then the implementation will happen in November. That is when the branch is made, there will be some downtime for one or two days and then the migration to the new.

Questioner: But you planning for it to happen only for 30 days at the branch level. So, anyway there is no impediment to the branch?

Management: All the work is going on, but the branches are completely kept aloof and they are not involved in any of the things. Today the first stage of borrowing ALM and treasury module that you are talking about the UAT is going on. Even at the report stages we have concluded almost 75 to 95 reports have been tested, working fine and continuing. There are bugs reported there we are updating in.

So we are clearly looking at implementation in August, whereby September the daily reporting of LCR, this thing, everything also we can do a comparison with the current system and the new system and 30th September all the reports everything will come from the new system, that is what is going on.

In terms of the LOS, LMS everything the fit gap analysis has been done master creation and all the requirement specification, the documentation, everything is getting done, it is already done. The SAT is scheduled this month. The month is then we have practically kept two months, is September and October for the UAT testing on the LOS, LMS, everything.

Migration also for the first part is already completed. We have one dry run of one month up to June is already completed. Sorry, up to March is already completed. June we will be doing it now. And then that way three trial runs for the first module is scheduled to be over by 31st August.

Questioner: Sir, looking at the salary cost per employee per annum, so whatever number we give, so it is around 10.5, how do you benchmark against the industry on this?

Management: See we had done this salary revision based on a supported by.

Questioner: I think will be 12 lakh now after the revision that is what I am looking at on average. So 20% is increment?

Management: 20% increment. So, we have done the compensation benchmarking through AON and there in fact, there was a up to the chief manager level I think the salaries are very comparable with the equivalent or better than the industry levels. But just like I was saying, you PSU generally is a gradual increase. Whereas in private sector, it is like this, but after one it does an exponential rise.

So it is in this particular post that is the levels where there is a difference is very high. We try to slightly bridge it, but of course, it will still not be there in that process, but at least we have made it a little more competitive where we can offer something better.

Questioner: So, basically the seniors have got their salaries readjusted that is what they are saying?

Management: No salaries have got adjusted across. So slightly if you know if it is x percentage for the first two level then it x plus something for the x plus 1 for the next two levels and x plus 2 and x plus 3. So the rise would be slightly higher in the top management.

Questioner: So, the bottom kidder is now probably parent market level?

Management: Better than market level.

Questioner: Better than market level, but the seniors may not?

Management: Today I like for example, an entry level salary for kind of the lowest that is officer grade that we recruit or somebody who is a fresher or somebody who has got less than 1, 2 years of experience. You take them in the officer grade which would be a CTC of somewhere around 5.5 lakh that is around INR40,000.

Questioner: That is a decent number I think because otherwise other places people started what 3.5, 4 also. So that's a decent number? But the seniors do not get the full reach of it, but at least gap come?

Management: Yes. This quarter I think we should see some further reduction in our SMA levels.