Management Discussion

Praveen Agarwal - Analyst, Axis Capital
Thank you, Abhiraj. Good day, everyone, and welcome to the earnings call of LIC Housing Finance Limited. From the management team, we have Shri Tribhuwan Adhikari, MD & CEO; Mr. Sandeep Kumar, COO; and Mr. Lokesh Mundhra, CFO.

I would request Mr. Adhikari to share his opening remarks, post which we will open the floor for Q&A. Over to you, sir.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Thank you, Praveen. Very good morning, and welcome to all of you to the post-earnings conference call of LIC Housing Finance Limited. As you are aware, LIC Housing Finance Limited declared its Q1 FY'27 results yesterday. Before discussing our financial and operating performance, let me briefly touch upon the evolving macroeconomic environment.The global macroeconomic environment continues to remain uncertain due to heightened geopolitical tensions, particularly the renewed escalation of the U.S.-Iran conflict, which has led to volatility in crude oil prices and global financial markets. While major central banks continue to adopt a cautious policy stance, the Indian economy remains resilient, supported by strong domestic demand, healthy government capital expenditure, and a robust financial sector. Inflation remains broadly within the RBI's comfort zone, despite potential upside risks from higher crude oil prices, and India's GDP is expected to remain among the strongest globally.Against this backdrop, the market expectations currently indicate that the RBI is likely to maintain the repo rate at its present level over the near term. While the recent geopolitical developments have introduced upside risks to inflation through higher crude oil prices, the RBI is expected to carefully balance inflation management with the need to support economic growth. A stable domestic interest rate environment should continue to support credit demand, particularly in the housing sector, while also benefiting funding costs and asset quality across the industry. With that backdrop, let me now take you through our financial performance and key business highlights for the quarter.Total revenue from operations was INR 7,062.45 crore as against INR 7,169 crore for the corresponding quarter of the previous year. Outstanding loan portfolio stood at INR 3,22,098 crore as on June 30, 2026, as against INR 3,09,587 crore as on June 30, 2025, reflecting a growth of 4%. Out of this, the individual home loan portfolio stood at INR 2,71,979 crore as against INR 2,62,411 crore, up by 4%, and comprises 84% of the total portfolio. Total disbursements for the quarter were INR 15,014 crore as against INR 13,116 crore, up by 14.5%.

Out of this, disbursements in the individual home loans were INR 12,119 crore as against INR 11,247 crore, up by 8%, and the non-housing individual loan segment was INR 1,975 crore as against INR 1,647 crore, up by 20%, whereas project loans or wholesale finance were at INR 872 crore compared with INR 156 crore in Q1 FY'26, up by 459%. Net interest income stood at INR 2,075.52 crore for Q1 FY'27 as against INR 2,064.71 crore for Q1 FY'26. Net interest margin for Q1 FY'27 stood at 2.58% as against 2.68% in Q1 FY'26.

Profit before tax for the quarter was INR 1,888.43 crore as against INR 1,699.16 crore in Q1 FY'26, up by 11%. Profit after tax for the quarter stood at INR 1,488.32 crore as against INR 1,359.92 crore for the same period in the previous year, up by 9.4%. In terms of asset quality, Stage 3 exposure at default stood at 2.14% as on June 30, 2026, as against 2.62% as on June 30, 2025. Total provisions as on June 30 of the current year stood at INR 4,398.43 crore, reflecting a provision coverage of approximately 48%.

The company also conducted a sale of a stressed asset through an ARC for a cash consideration of INR 140 crore during Q1 FY'27. On the funding side, our cost of funds stood at 7.28% as on June 30, 2026, as against 7.50% as on June 30, 2025, and 7.27% as on March 31, 2026, reflecting a reduction of 22 basis points year-on-year. Our incremental cost of funds stood at 7.06% for Q1 FY'27 as compared to 6.86% for Q4 FY'26 and 6.97% for Q1 FY'26. Despite the elevated interest rate environment during the quarter, our cost of funds remains largely stable, reflecting the strength of our diversified borrowing profile, prudent liability management, and timely access to multiple funding sources.

With that brief introduction, I would like to invite you to share your queries. Thank you.

Operator
Thank you very much. We will now begin the question-and-answer session. [Operator Instructions] The first question is from the line of Avinash Singh from Emkay Global Financial Services Limited. Please go ahead.

Avinash Singh - Analyst, Avinash Singh from Emkay Global Financial Services Limited
Hi. Good morning, sir. Thanks for the opportunity. A couple of questions. First, on overall growth and margin trajectory. So if we look back, the kind of five-year data as presented, the growth and margin both have not been coming the way you would have thought. But if we look in the context of the industry, and particularly from your peers who are reasonably active in prime housing as well, they have done reasonably well. So now what sort of, going forward, what are you going to do differently that gives you a kind of belief that the growth and margin trajectory from here onward could at least alter or could be materially better than what has not worked for the last nearly five-odd years?The second is on, if I were to look at developer finance, of course, your exposure is very limited. But again, there also, if you look back nearly five years, there was a reasonable, I would say, opportunity for many of the lenders, housing finance companies, and NBFCs, owing to HDFC Limited getting merged into HDFC Bank Limited. And a lot of your peers have kind of leveraged that opportunity. But in this round at least, you seem to have missed that bus. Now from here onwards, what kind of opportunity do you see in the developer finance segment, particularly from the risk-adjusted return perspective, because the past track record for you in this segment is not so great? Thank you.

Questions & Answers

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah, Avinash, very good morning. Yeah, I'll take your growth question first, the part related to growth. Well, yes, you may be looking at the AUM growth of 4% and that is why you say that growth has not been satisfactory. But if you look at our disbursement growth for Q1, as I said, the disbursement growth is as per our standards pretty okay, 14.5% growth as compared to year-on-year, which we had in the beginning in the Q4 earnings call I had given an indication or guidance that first quarter would be growing at 15%. So more or less our growth is in line with the guidance. And I think by growing at 15%, traditionally our growth has been sub-10. Right. So we do see some traction as far as growth in business is concerned in the quarter.And looking into Q2, of course, this is the first month, July, we are still back on track. Q2 also I feel, I feel in fact we are targeting a 15% growth in Q2. So I think as far as the disbursement front is concerned, I think we should do well this year and the guidance we have given about 10% to 12% growth, we will be able to achieve that. Yes, the book growth is going to be gradual. It is not going to happen overnight,

because apart from the growth, the loans which get added up due to disbursements, there are a lot of exits also by way of maturities, by prepayments, part prepayments, full prepayments, and of course BT out. In quarter one, our BT out is at INR3,000 crores approximately. BT in is about 1.5, so net BT out is about INR1,500 crores. And I think this is okay, this is in line with what we expect.So you will be witnessing a good disbursement growth this year. The book growth will grow gradually as disbursements grow. Now coming to your margin call, yes, margin indication in the beginning of the year was 2.6% to 2.7%, provided everything remains okay, geopolitical, economic, etc. We have ended the quarter at 2.58%, two basis points below the guided lower end of the guidance at 2.6%. But anyway, this was expected because last year there were a lot of rate cuts in the overall book as well as the new borrowing book which we had to introduce because of rate cuts by RBI, and in keeping in line with the reduction in repo rates of banks due to the rate cut. So since we are competing largely with banks on the IHL, individual home loan front, we had to be competitive and that has to some extent impacted the margins.But again, this year also like last year is going to be let me say a war or tug-of-war between high growth and maintaining your margins. And we would be of course looking to try and do both at the same time, grow our books through higher disbursements and more of retentions, and at the same time maintain our NIMs at the guided level of 2.6% by ensuring by probably focusing on better borrowing costs. We are also looking at a product diversification strategy which has been on for the past two years, it is gaining ground. We are slowly trying to reduce our share of individual home loans and probably get into the what we call the non-individual home loans, basically meaning the LAP and the LRD segment. There has been traction on that, that book is growing, right. And also, yes, on the other front, we also look at this year we will be looking at, as I said in the beginning of the year, inorganic growth through direct assignment and co-lending, the policy is on the final stages.And we should be, I think in Q2 we should be starting the direct assignment and co-lending business, that would also give us some book growth, and we will be also looking at increasing our margins. So that is about the margin part of it. Yeah, developer finance book, yes, it is a small part of our book, not too much of a thing. Yes, last year was a disappointing year from the developer finance perspective. So this year we could do about INR1,950 crores of disbursement in developer finance. This year the start has been good. First quarter, I think we have done about 850-odd, INR872 crores of disbursement in the wholesale book or the developer finance book. Growth is very high at 450%, largely to do with the low base of last year. Yes, we are interested in the developer finance book, but again, cautious, steady. The other part of it is we are also looking at margins from the developer finance book, which is right now under extreme pressure. The big builders, the very good builders, they are demanding prices sub-8, which we feel as a company that it is not in our interest to do developer finance at 8% or sub-8, right. We need margins from there.So we are looking at good quality Grade B builders. Till last year, we had this overhang of the developer companies or builders being minimum rated BBB or above. So this year this is going to go, not yet gone completely, but this year this is going to go. We have a credit risk policy for developer finance which is almost ready, will be going to the EC and the Board in the coming month. So I think that overhang will go, that will help us get into slightly lower-rated builders. We need to be careful that, yes, we choose the good ones with the good track records so that again we do not get into the sort of kind of problems we had in the past. So developer finance book should do well. We have set a modest target of about INR4,000 crores for the current financial year. Expectations are of course that we would probably be doing INR7,000 to INR8,000 crores in developer finance. I hope that answers all three parts of your question.

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
Avinash, again Lokesh Mundhra, CFO, I'll supplement what our MD said. So though portfolio growth is 4%, but in absolute terms you will find it is more than INR12,500 crores plus. So being the largest housing finance company, definitely if you compare in percentage terms then definitely it's a bit less. But in absolute terms it's a very good growth. And second, in terms of disbursement growth, 13% growth year-on-year, so that is in line with our expectations.

Avinash Singh - Analyst, Avinash Singh from Emkay Global Financial Services Limited
Thanks. In developer finance that you are targeting, any sort of a range of per project or per builder exposure you are -- what kind of a typical ticket size, that okay you want to say that okay we will not go beyond that ticket size or something of that sort in mind?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
No, I don't think we have any ticket size in mind. We are willing to consider all sorts of ticket sizes, right, right from probably at the low end small developers wanting small loans of INR25-30 crores, right up to big developers asking us for INR300-400 crores, that also we are open. But I think what we will be looking at in developer finance is the kind of rates which these borrowers are willing to give us. Right. So going into a Lodha or Oberoi or Puravankara or Sobha, who is demanding sub-8, you know, I don't think that is what we are looking at. And we are taking calls on probably not going for that just for the sake of building the book, because we want margins, we want some margins in the developer finance book. Right now our margins are probably close... we are lending at probably 10.5% in the developer finance book. So we would be wanting rates closer to that.

Avinash Singh - Analyst, Avinash Singh from Emkay Global Financial Services Limited
Got it, very clear. Thank you.

Operator
Thank you. The next question is from the line of Gaurav Khandelwal from J.P. Morgan. Please go ahead

Gaurav Khandelwal, - Analyst, J.P. Morgan
Yeah, hi. Good morning. Thanks for the opportunity. I've got a few questions. My first question is, sir, previously your philosophy was more on protecting margins at the cost of growth. And given your comments just now, is it fair to assume that the philosophy is now evolving to chase growth rather than margins? How should one think about that?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Gaurav, no. Yeah, last year I had given an indication that given a choice, I would like to protect margins as compared to growth. This year, I would say we would try to balance growth along with margins, right? So it is not going to be that we are going to shun growth and look only for margins. We are trying to grow the book because that is important from the long-term perspective. And at the same time, margins are important to me because it is no use growing the book at lending rates which probably do not help my spread, help my margins, so on and so forth. So we have to look at the best of both worlds, trying to protect the margins as well as trying to grow the book through higher disbursements and better retention.

Gaurav Khandelwal, - Analyst, J.P. Morgan
Got it. And the other question I have is on costs. So if I look at the YoY cost growth, that's actually

quite high in the first quarter. Can I understand what is driving this year-on-year cost increase? And is it also to do something with initial investments in hiring more people that you had mentioned last quarter and setting up your tech architecture for enabling digital co-lending and DA models? So just want to understand what is driving the high year-on-year increase in costs.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah. We have been hiring, yes, we have been hiring, but it is not significant that should increase, that should really sort of disturb my cost. The main reason for the increase in cost which you see is a gratuity provision of INR22 crores which we had to make due to an increase in the G-Sec yield. So this is a one-off, this is a one-off which has happened in this quarter, an increase in the gratuity provision of the employees due to an increase in G-Sec yield. Otherwise, the costs are all well within range. Yes, the IT spend has not yet taken place. It will happen. There is a significant IT spend which is to come in the year, during the course of the year. It has not yet happened yet, but it will probably come between Q2, Q3 and Q4.

Praveen Agarwal - Analyst, Axis Capital
Got it. Thanks for that. And this is the final question. On the... there is a significant drop in non-interest income. And so what I want to understand, is there some adjustment in recovery item where you have excluded that from non-interest income and adjusted that with provisions? Because we were not expecting a provision write-back. And could you also give us more color on the NPA account recovery which has happened and how much is the provision release on the back of that?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Okay. Yeah, regarding the other income which you see a drop, there has been a slight accounting change, right, in the current quarter, which our auditors wanted us to do. Until last year, recoveries from written-off NPA accounts were being... which was for the current quarter about INR31.87 crores, and was being added to other income. This year, this has come... this has been merged under the impairment head. So basically, these INR31 crores of recoveries which last year went into... would have gone into other income, have now come under the impairment head. So that is why you see this slight anomaly.

Gaurav Khandelwal, - Analyst, J.P. Morgan
Got it. And in that context, what's your view or guidance for the full year on these new credit costs? How should we think about this for the full year? And also for FY'27 for the entire year, should we think of 15% as the disbursement growth rate?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah, coming to credit costs, right now it is negative 5 basis points, right? The credit cost guidance which we had given at the beginning of the year was about 10 to 15 basis points. Yes, we are definitely in line to achieve that. The asset quality has been improving quarter-on-quarter. This quarter, of course, there was one big one-off of INR180 crores of NPA, which we sold to NARCL for INR140 crores. That was a big one-off. But there will be similar... there will be similar recoveries coming in Q2, Q3 and Q4. A lot of our big legacy loans are in very advanced stages of resolution. So you could expect some big reduction in NPA because of resolution of these. For the quarter, the recovery from NPA accounts was INR540 crores. Last year, it was about INR307 crores. So there has been an increase. So the asset quality is going to improve. Right now, Gross NPA is at 2.14%. Guidance for the year is 2%, less than 2%. We are definitely going to achieve that, in fact, do much

better than less than 2%.

Praveen Agarwal - Analyst, Axis Capital
But the 10 to 15 basis points credit cost guidance is before the recoveries number?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
That is at the beginning of the year, yeah. That took into account the various kind of recoveries we expected during the year.

Gaurav Khandelwal, - Analyst, J.P. Morgan
Okay, got it. And on disbursement target for the full year?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Disbursement target right now, 14.5% growth. Quarter two, we have given you an indication about 15% growth. For the full year, we stick by our guidance of 10% to 12%, which we had given in the beginning of the year.

Gaurav Khandelwal, - Analyst, J.P. Morgan
Got it. Okay. Thank you so much. Those were all my questions. Very helpful.

Operator
Thank you. The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Unidentified Participant - Analyst
Yeah. Thanks for taking the question. So firstly, again touching upon the provisioning aspect. So that upgrade of the restructured account which was going to happen and there was expected to be maybe the provisioning release from there, is that also included in this provisioning line item? If you can just highlight this entire breakup of 165-odd crores, how we are getting to this number, because you mentioned that recovery from written-off accounts is also considered out there. So that would be very helpful in terms of the breakup, yeah.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah, coming to the first question, yes, that big restructured account of about INR500 crores is not included in this. Though as per the decision of the Executive Committee, the account was restructured from the 1st May 2025, so technically speaking, that one-year period should have expired on the 1st May or the 30th April 2026. But somehow our auditors were of the view that since the payments came in... the first payment came in a little bit late, of course, it was as per the restructuring schedule, the payment did not happen exactly on 1st May, the first payment happened later, they have not allowed us to consider that as upgraded. But that will happen in Q2, Q2 or Q3. So that big restructured account is not in the reporting of Q1. And the second part of your question was...

Unidentified Participant - Analyst
So yeah, so this entire write-back is primarily on account of the recovery from written-off accounts; it's not on the provisioning release of this restructured account.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
No, no, no. The restructured account is not appearing in the reporting of Q1.

Unidentified Participant - Analyst
Got it. And this payment which you have received, is that the... so what portion of the... of this 500 crores have been received till now? And in terms of the release of the provisioning, would it be in terms of the actual payment, or maybe now given that one year, because last time you were confidently saying that one year will be done and we will upgrade it. So should we see it on the payment, because now you are saying Q2 and Q3 as well. So it appears like it depends on the actual payment that we will do the provisioning release.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
No, there is some difference in the point of view of the management and the auditors, statutory auditors. Otherwise, personally if you ask me, technically speaking, one year is the cooling-off period. The Executive Committee had restructured this account on the 1st May 2025. We feel that it should have been taken as upgraded in the current quarter, but somehow the auditors have a different point of view. We are still discussing with them, trying to iron out the issue. This quarter it has not happened, so it could happen in Q2. That is what I am saying.

Unidentified Participant - Analyst
And payment received quantum?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
For the restructured account?

Unidentified Participant - Analyst
Yeah.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Well, there are two accounts I'm talking of. One is the big account which was sold to NARCL in the current quarter...

Unidentified Participant - Analyst
Yeah, that I got it. Yeah, that is 140 crores. I am talking about this restructured, you said like payment happened later. So how much of the money have we already received from that, yeah?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
This is as per the restructuring schedule, no? I think, let me see if I can... I do not have the exact schedule right now, but this is restructured over a one-and-a-half-year period. A restructuring schedule is usually like that. The entire money doesn't come upfront, it is restructured to come in bits and pieces over a definitely defined time frame. So all those recoveries are coming in, but the first... as per the restructuring, the first payment which came in, which I think... I don't have the exact date, I think it was in December. It was in December. Right now, the statutory auditors feel... Our contention is that since the Executive Committee of the Board restructured it from May 1, 2025, with the repayment schedule starting from December till up ahead, we should take it as restructured from May 1. But somehow they have a different point of view, there's a discussion going on. Let's see, if it gets resolved, it'll come into Q2.

Unidentified Participant - Analyst
okay,

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
So we have received the amount as per the restructuring schedule. Nothing is overdue.

Kunal Shah - Analyst, Citi Research
Got it, perfect. And the other question was on yields, so particularly the pressure on margins of 22-odd basis points with cost of funds remaining stable, what is actually leading to it? Is it... we have shown that yield on advances have declined, but was there a BT-out pressure? And since we have increased the... maybe the BT-out rates as well, so has that impacted? Because I think you mentioned 1,500 crores of net BT-out, and what I recollect last quarter was 1,150 crores. So was a BT-out also slightly higher during this quarter compared to that of the last quarter and creating some pressure on yields?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yes, BT-out definitely, but BT-out is a part and parcel of this business. Last year it was particularly severe because banks, they are linked to repo rates. The moment RBI reduces repo rates, the entire book gets restructured to lower rates, whereas in HFCs we have a relook depending on cost of funds, credit costs, and all other things, so we do take our time in reducing the rates across the board. So definitely there was a BT-out pressure last year. If you see Q2, Q3 and Q4 of last year, almost 34,000 crores of BT-out took place. Current year, our net BT-out, as I said, is 1,500 crores, slightly up from about 1,200-1,300 crores, which is there, but that is expected. That is expected, right? So nothing to do on that, though of course we have outlined a strategy to probably not let customers go.

We have certain rewriting rates in place, there's a defined policy on rewriting. We are flexible now, this year we intend to be flexible with the policy in the case of prime customers, very good customers, big-ticket customers, and we are willing to bend our policy to accommodate lower rates of interest, because in a BT-out what happens, a high-rate loan goes out and what the competitor organization offers is the lending rate which is much lower than the rewriting rate. So again, we are flexible on that, we have formulated a policy where we are tracking each and every big BT-out, negotiating with the customer, talking to the customer, and wherever we feel that the customer is a prime customer, a strong customer, a big-ticket customer, we are offering them rates which are, I would say, comparable to what they are getting elsewhere.

So that is one thing which we are doing. And the other reason for the decrease in margins, I think we had an... last year somewhere around in April we had a complete 25 basis points cut on the overall book, so that was not factored in in Q1 of last year because as per our rules one-third of the book gets repriced immediately, two-thirds get repriced after the first month of the next quarter, which meant last year happened on July 1. Out of a INR3 lakh crore book, probably INR1 lakh crore got repriced immediately in April, the remaining INR2 lakh crores got repriced from July 1. So that would also have an impact on the Q1 year-on-year decrease in the spreads and the NIMs.

Kunal Shah - Analyst, Citi Research
Got it, got it. Yeah, thanks. Thanks and all the best, yeah.

Operator
Thank you. The next question is from the line of Zhixuan Gao from Schonfeld. Please go ahead.

Zhixuan Gao - Analyst, Schonfeld
Hey, thanks for the opportunity. Just a housekeeping question. What's the overall disbursement,

incremental disbursement yield in the first quarter of this year?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
In the first quarter of this year, our disbursements were INR 15,014 crores as against INR 13,116 crores in the first quarter of last year.

Zhixuan Gao - Analyst, Schonfeld
No, I mean disbursement yield. The yield on these disbursements.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
The NIM?

Zhixuan Gao - Analyst, Schonfeld
Yield, incremental loan yields.

Operator
Sorry to interrupt, Mr. Gao, may we request you to use a microphone while asking a question? You're not that audible.

Zhixuan Gao - Analyst, Schonfeld
Am I audible now?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah, now audible.

Zhixuan Gao - Analyst, Schonfeld
Yeah. What is the incremental disbursement yield this quarter? As in the INR 15,000 crores disbursements, what yield on average is that?

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
So incremental yield for this quarter is 8.25%.

Zhixuan Gao - Analyst, Schonfeld
8.25%. And your overall portfolio yield, on back-book yield, is 9.12%. Right?

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
Cumulative yield is 9.12% as on June 30, 2026.

Zhixuan Gao - Analyst, Schonfeld
Yeah. So there's a 100 basis points gap between your incremental yield and your book yield, cumulative yield. So how are we maintaining the margin going forward? Because as you disburse more and as repayments come, the book yield will trend down towards your incremental yield, right?

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
No doubt about it, there was some pressure on our cost of borrowing. But our strategy, definitely we are now focusing on the other housing loan portfolio, which is giving another 150 bps extra as you compare with the IHL portfolio. So and that portfolio is growing at around 20% in this quarter. So we are hopeful that IHL, which has grown by 15% in this quarter, and portfolio diversification from IHL to OHL, other than housing loans, means your LAP and LRD, is the high-yielding segment. So I think that segment will compensate for our overall yield for the year.

Zhixuan Gao - Analyst, Schonfeld
Thank you.

Operator
Thank you. The next question is from the line of Abhishek from HSBC. Please go ahead.

Unidentified Speaker - Analyst
Yeah, hello. Good morning. Or good afternoon now. So can you tell me, last year, and I'm talking about disbursements only, last year in project finance we had a disbursement of roughly INR 2,000 crores. This year is there a target or sanctions pipeline which you follow, or is it more transactional and when it comes to you through your team, that's when you decide whether to underwrite or not? How do you approach this?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Well, yes, last year INR 2,000 crores of disbursement, a very muted year as far as the developer book was concerned. This year in Q1 we have disbursed about INR 872 crores, there is a growth of more than 450%. Target for the year in the developer book is INR 4,000 crores, we are aiming at INR 4,000 crores, but we are expecting somewhere around INR 7,000 crores to INR 8,000 crores. The process is transactional, yes, as and when the borrowers approach us for a loan, we do the credit appraisal, see what rates they are asking, and then take a call whether from the credit perspective, risk perspective, it is doable, and also whether from the rates perspective it is in our interest to offer them that loan at whatever rate they are asking.

Unidentified Speaker - Analyst
So is that a sanctioned pipeline or is there no sanctioned pipeline?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
There would be some cases which were sanctioned last year, because see, developer finance is basically construction finance, right, and this is dependent on the stage of construction. So any building coming up in the initial stage, plinth level construction complete, probably we disburse what 25% to 30% of the entire sanction, and as and when the construction progresses...

Unidentified Speaker - Analyst
How much is the sanction, sir? Is it INR 7,000 crores was the sanction, is it?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Last year... no, no. Last year the sanction was closer to INR 5,000 crores. But then sanction does not translate into disbursement, right? Supposing we sanction a loan at 9.5% to say Sobha in Bengaluru, from our point of view it is sanctioned, but if Sobha is asking me for 8%, and probably I'm not okay with it, so that sanction automatically I would say...

Unidentified Speaker - Analyst
So the reason I'm asking, just to explain the reason I'm asking, is that you have a INR 4,000 crore target for the year. I just want to know what is the predictability, like you will achieve INR 4,000 crore or that is dependent on when that disbursement comes up and whatever commercial terms are acceptable or not, so it may not be 4,000, it may be 2,000, you can't say right now.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
This INR 4,000 crores would include probably about INR 700-800 crores of sanctioned amount

where the disbursement would be made in the current year, right, what we've already sanctioned in the previous financial year. The rest of it would be new sanctions, new files which come to us during the year, and we are expecting a 100% achievement of this disbursement target of INR 4,000 crores, in fact what we are aiming for is a disbursement of around INR 7,000 crores to INR 8,000 crores.

Unidentified Speaker - Analyst
Understood. Got it, sir. And you will maintain 10.5 over there, lending rate, like that will be your cut-off broadly?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
That is a benchmark, that is not a benchmark, but that is somewhere where we would like to be, right? It is no use growing your book at 8%, that is our contention.

Abhishek - Analyst, HSBC
Exactly, exactly. So internally you want to stick to roughly 10.5, plus-minus something, just so that profitability is maintained. Understood. In LAP and LRD, sir, again similar question, so last year you did about INR10,000 crores. This year you've done 2,000. Is there again a target for LAP/LRD put together for the year?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
LAP is about 9.4%.

Abhishek - Analyst, HSBC
In LAP and LRD, both of them are similar, 9.4%?

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
So for this NHI segment, LAP and LRD, my cumulative yield is 10% plus, but my incremental yield is 9.43% for this quarter.

Abhishek - Analyst, HSBC
Okay. And what is the cumulative yield currently on the book, LAP and LRD?

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
It's more than 10%

Abhishek - Analyst, HSBC
Yeah, okay, more than 10. Got it. And sir, finally on your credit costs, I didn't get the exact breakup, but how much is actual credit cost and how much is recovery for the quarter? Can you give that breakup, the stuff that is coming into your P&L, sorry, so the 164 crore provision, how much of that is provision and I think there's a net write-back, right, 164 crores something, so how much is the recovery part or write-back part and how much have you actually provided?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
This is 132 crores is from ECL, this 164 of recovery in ECL is 132 crores from ECL and 32 crores from recovery.

Abhishek - Analyst, HSBC
Okay, okay. I'll take that offline, no problem. I got my answer. Thank you so much and all the best.

Operator
Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal Financial Services. Please go ahead.

Praveen Agarwal - Analyst, Axis Capital
Hello, am I audible?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yes. Yeah.

Abhijit Tibrewal - Analyst, Motilal Oswal Financial Services
Yeah, hi sir. Good afternoon. So just two things. One is, I think earlier in the call you had said that while this quarter you have reported margins of 2.58%, for the full year we are now guiding for the lower end of the margin range initiated earlier, which is 2.6%, if my memory serves me right. So what I'm trying to understand is, don't you think that what we discussed in this call earlier as well, that margin pressure will likely continue given that the overall portfolio yields for us are about 9.12% to be precise, and what we acknowledged is the incremental yields on the business that we are doing is about 8.25%. So pressure will be there on yields.

And on the cost of borrowing side also, if you could just enlighten all of us that what is the maturity that is coming up this year, both on NCDs and the bank borrowing side, at what rate are they coming up and what is it that you expect it to get refinanced at? So just trying to understand that interplay between pressure on yields which will be there, while I heard you that we're trying to make some changes in the product mix, trying to increase NHI, NHC, but that is a much smaller proportion of your book and will take time for it to make any meaningful improvement in the portfolio yields. So just that bit if you can help us understand.

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
Yeah, Abhijit, so your first question was my incremental cost of borrowing, it is 7.06% for this quarter. And second question was how much amount is going to mature in this year, so it is around 70,000 crores, average cost of that is around 7.38%.

Abhijit Tibrewal - Analyst, Motilal Oswal Financial Services
Got it. And which you expect to get refinanced at maybe 7.1%, is that a fair assessment?

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
Yeah, almost now rate scenario is definitely on slightly the higher side, but what I said was my incremental borrowing cost is 7.06% during this quarter, so probably I'm hopeful that we will get it at a lower cost than what rate it's maturing.

Abhijit Tibrewal - Analyst, Motilal Oswal Financial Services
Got it. So then safe to conclude that at least cost of borrowings do not inch up from here at the margin, your portfolio weighted average cost of borrowings or liabilities comes down in the coming quarters?

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
It's almost in line, but it may increase by 3-4 bps on a cumulative basis. If you compare with my cumulative cost of borrowing, it was 7.27% last year, it has increased by hardly 1 bps only.

Abhijit Tibrewal - Analyst, Motilal Oswal Financial Services
Correct. And you expect it to stay there or increase by 3 to 4 basis points, is what you said?

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
3bps to 4 bps maximum.

Abhijit Tibrewal - Analyst, Motilal Oswal Financial Services
Got it, sir, this is useful. And then the only other question was a data-keeping question. In the earnings call, you share your Stage 3 segment-wise. Can you do it for all of us?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah, Abhijit, you can note it down. You wanted group-wise, right, individual loans, LNC and project, etc.? Yeah. Individual loans Stage 3, the EAD is INR2,967 crores, and the percentage is 1.09%. In LNC and project, it is INR2,819 crores, and it is 20.53%. NHI is INR1,113 crores, and it is 3.06%. Overall, INR6,899 crores and 2.14%.

Praveen Agarwal - Analyst, Axis Capital
Got it, sir. So just one follow-up on that. So IHL, you have actually seen it move from 1.03% to 1.09% this quarter?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Got it, sir. That answers my question. Thank you so much and I wish your team the very best.

Operator
Thank you. The next question is from the line of Rishi Modi from Modi Advisory. Please go ahead.

Kunal Shah - Analyst, Citi Research
Yeah, hi sir. Am I audible?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah, I can hear you, Rishi.

Kunal Shah - Analyst, Citi Research
Hi. So I'm new to the company, so I just had some more questions on the business front rather than just this quarter. So first question I had, sir, you had mentioned in the Q3 FY '26 call that you all are exploring the possibility of bringing in an external CEO, non-LIC individual, probably someone from the industry, and discussions are ongoing with LIC. So just wanted some further updates here if you all have anything which you can share with the wider audience.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Are you sure I said this? Because I don't think I ever said that. No, no. No, this has never... this has never happened.

Kunal Shah - Analyst, Citi Research
Okay, so that's not happening. All right. Second, I wanted to understand, sir, on the affordable housing finance business, you mentioned an external team, completely external team, non-LIC Housing Finance people to run it over the next 2-3 years you all want to build it up. And this year you all are assembling the team. Just wanted to know, are we on track and how... what budgets have you all set aside?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
It is still a work in progress, it has not been rolled out as yet. Yes, but expected that with the concurrence of the Board and the NRC, which is going to give me the sanction for additional staff, we will be taking it up in the current year.

Kunal Shah - Analyst, Citi Research
And sir, how much budget are you all keeping aside for this, like over the next 2-3 years, like how much OPEX you all are willing to fund, how much loan book are you all willing to take exposure to, any guardrails around that?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
No, yes, there will be guardrails because affordable business is a risky segment, so there will definitely be credit risk-related guardrails. We have not set any target for business or anything of that sort, and as I said in my last call, let the child be born and then we see how to groom him and develop him, right? So we have not taken any targets for affordable business right now. Yes, we are doing affordable business, but not with this structure which we had in place or which we discussed in the Q4 con call. It is a work in progress, but expected to take off somewhere in this year with the concurrence of the NRC and the Board.

Kunal Shah - Analyst, Citi Research
Okay, got it, sir. Third question, sir, I wanted to understand like till last year or year before that you all had some INR7,000 crores worth of loans which were written off and under process of recovery. So just wanted to understand how much of that amount has been recovered and how much do you expect to recover over the next 2-3 years realistically?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
So out of 7,000 crores, I believe approximately 3,000 crores would be the amount in write-off, technically write-off what we call. It is not written off completely, it is not off our book, we still consider it to be a part of our book and we aggressively pursue all legal and other methods of recovery. In the current quarter, I think we have recovered about INR37 crores from this pool, from this pool. And most of these are your legacy loans, most of them from the developer finance book. These loans are in various stages of resolution, I would say right from your SARFAESI Act legal recourse to cases in DRT where we are expecting decisions, NCLAT, NCLT, and also some of these cases are in negotiations with the borrower themselves for a one-time settlement, OTS what we call. So this year we expect, we would expect some good recoveries from here, from at least to the tune of INR500 to INR600 crores.

Kunal Shah - Analyst, Citi Research
Okay, INR500-600 crores this year, and then do you think like another INR2,000 crores over the next 2 years can be recovered out of this?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah, definitely. We'll be targeting more, but definitely INR2,000 crores.

Kunal Shah - Analyst, Citi Research
Okay, got it. So my fourth question, you all recent... like over the last few years you all had implemented Project RED and now you all are venturing into this new IT straight-through process, if I'm not wrong. Just to understand, like Project RED, what benefits are you all seeing today, how

should one think about like will we see a loan growth acceleration, will we see reduced BT-outs, would we see reduced cost to income or lower GNPAs on the back of Project RED? And again with the straight-through process, I think it's more automated underwriting, so do we expect faster processing, faster TAT, like I'm just trying to understand, we're spending this much, how do... how does an investor measure your success, is there some targets that you all are setting where we see that this tech investment is actually helping us? And then the latest, this year, how much do you expect to spend on IT? And finally, if you were to measure yourself against, say, Bajaj Housing or Can Fin Homes, where would you say you would be on the tech capabilities as a percentage of their capabilities if you've done some assessment?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah, I think Project RED was basically our change of our complete overhaul of our LMS and LOS, right? The earlier system which we had was CASTLE. This was implemented in 2012. This was, I would say, okay for its time, it was okay, but then coming into the new digital world, we found that it was not adept or not in tune with the current requirements of the digital world, the various apps we have, the various APIs we needed to link. So we went in for a complete overhaul of both our LOS and the LMS, so that is complete, that has happened in 2023-24. And now we are integrating our various, I would say, apps and applications and the other tools which we have to improve the customer experience, improve our service delivery, improve our turnaround times, improve the way and methods of working.One of them you talked about was this STP process where we are talking of complete digital onboarding, digital credit appraisal. That has been implemented somewhere around January or February of last year. So four months of experience we have. Yes, we had very tight guardrails around that, which resulted in a smaller number of cases being eligible to go through the STP process. We are currently reviewing that and we are, based on our experience, quite sure... we are, I would say, assured that, okay, whatever guardrails were put in place, whatever risk mitigation measures were in place are working, and now we can afford to relax them a bit.So in the first quarter, almost about 960-odd crores have been disbursed through the Homy app, which is also an online onboarding platform. So all these digital, new digital things which help us reduce or cut back on our manpower, or rather redeploy our manpower if I may use the word, there's not going to be any retrenchment or anything of that sort, but whatever excess manpower we get by way of introducing these digital initiatives, they are going to be redeployed in other productive areas so that the productivity goes up. So that is a work in progress.Another thing this year what we are looking at, we are looking at a complete Data Lakehouse project, whereby the entire data of the company is going to be, I would say, consolidated and used effectively for data mining, data drilling. AI is going to be integrated into that, so that it helps us in generation of leads, it helps us in our what you call EWS (Early Warning System) for collections, for NPAs, and for a whole lot of other systems. So that is going to start this year, the tendering is already over and very shortly we are going to issue the contract to the successful vendor, which I will not name right at this moment.So these are the things in progress, and if you say compared to Bajaj and Can Fin Homes, yes, I do agree they are probably slightly ahead of us at this moment, at the current moment, but we will catch up with them, no doubt about that, we will catch up with them. Our systems have to be equally robust and even more robust than the systems which at least Can Fin Homes has. Bajaj is, of course, the benchmark in the industry, in the housing finance industry, if I may say. So this is all work in progress, going on on all fronts and we are expected to do well, which will, of course, result in, I would say, generation of additional manpower for us, which can be used for productive purposes.

Kunal Shah - Analyst, Citi Research
Got it, sir. And if you could just quantify how many...

Operator
Sorry to interrupt, Mr. Modi. May we request you to return to the question queue for a follow-up question?

Rishi Modi - Analyst, Modi Advisory
Thank you.

Operator
Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your question to one per participant.

Operator
The next question is from the line of Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas - Analyst, Prescient Capital.
Hey, this is Sonal Minhas and I would just like to continue from the question that somebody in the queue was just asking. When will these software products start adding meaningfully to the top line and the growth of the company, that's one. And secondly, also that from a preparedness perspective, if you want to lend, let's say, individual loans at higher yields, what is the preparedness required from a people, systems and mindset perspective, because it's a different set of customers that we need to lend to. So just want to understand subjectively what the preparedness is for that.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah, regarding the digital preparedness, it's not a sort of a one-time job or a one-day job, this is a continuously evolving process. Digital systems are put in place, various things like onboarding of customers, for credit appraisal like the STP process we have done, for generating EWS, for helping us reduce our delinquencies, reduce our NPAs. So this is a complete work in progress now with AI coming in and a lot more new tools coming in, we are exploring those also.So there cannot be an end date to that, it is a continuous process, it will keep on happening. The ultimate aim and objective is to make the experience for the customer much, much, much better. Number two, make it very cost-effective for the company to do its business and probably generate... reduce the overall costs which contribute to the margins of the company. So this is an ongoing process, right? And the second part of your question, what was it, Sonal?

Sonal Minhas - Analyst, Prescient Capital.
Sir, I was asking that maybe a timeline would help in terms of understanding when would the growth of AUM be at par with the names... the names that you were just talking about, Bajaj and Can Fin Homes, maybe a couple of other names. Is there a broader guidance of when can we expect, let's say, a double-digit growth number or a higher growth number in terms of AUM growth, once this preparedness is there and we are ready internally?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah. See, if you look at our peers, for example, I do not know the Bajaj numbers, probably their book growth would be somewhere around, what, 20-25%. Yes, if you look at ours, 4% growth seems very, very, very low. But as the CFO was saying, we have added almost 12,000-13,000 crores

to our book in the quarter, in the first quarter, right? Now, because my base is huge, INR3 lakh crores, as probably Bajaj being half of mine, so naturally on the same growth Bajaj would be showing double the growth than mine, right?So matching the peers until they reach our size is probably going to be difficult, yes, I agree to that. But definitely, yes, we cannot be satisfied with this 4%, 7% growth which we have been demonstrating over the past 3-4-5 years. Definitely we need to start off with a double-digit growth and probably inch towards 12-13% consistent growth over a period.This year, we are hell-bent on trying to give a growth of close to 8% to 10% in the book and at least a 15% growth in the disbursement, so that we can start our journey of growth both in the disbursement as well as on the book, which we have not been showing for the past 3 to 4 years.

Sonal Minhas - Analyst, Prescient Capital.
Got it, sir. Thanks for answering.

Operator
Thank you. Thank you. The last question for the day is from the line of Arun Antony from JM Financial. Please go ahead.

Arun Anthony - Analyst, JM Financial
Hi. Good afternoon, sir. Just a couple of questions. Just wanted to check regarding the guidance. I think earlier the guidance for disbursement was around 16% and growth was around 10% to 12%. So is that being revised to around 8% to 10% growth and disbursement of around 15% currently? And also just one more question on the disbursement side. I think last quarter you had mentioned that in April you were seeing around disbursement growth of around 21%, right? And then what happened in May and June so that the disbursement growth for the overall quarter dropped to 14%? And the last question on credit costs is that I think the guidance was around 10 to 15 bps for FY'27, but considering the accounting change that was carried out in this quarter, is the guidance for credit costs still in that range or would it be lower than that? So these are my questions.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Okay. Coming to disbursement, yes, one month is not an indicator of what is going to happen in the long term. Yes, April I think when we talked, we were showing probably a 21% growth. But the guidance we had given for the quarter was 15% and we have almost been there, 14.5% is what we have achieved. Again, as I said, guidance for Q2 also stands at 15%. Yes, some months could be good, July could be good, August could be slightly lower than July, September could be good. So let us take it for the quarter, 15% is what we had guided and 14.5% is what we have achieved. For the year, our guidance for the book growth was double-digit and for the disbursement growth it was between 10% and 12%. We continue to maintain that. Credit cost right now is negative 5 basis points. For the year, we had given guidance of 10 to 15 basis points. Yes, and we stick to that, we stick to that guidance of 10 to 15 basis points for the year.

Arun Anthony - Analyst, JM Financial
So just to finalize, the actual AUM growth guidance is around 8% to 10% and disbursements for the full year are 10% to 12%?

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah.

Arun Anthony - Analyst, JM Financial
All right. Thank you.

Operator
Thank you. Ladies and gentlemen, that was the last question of the day. And I would now like to hand the conference over to the management for closing comments.

Tribhuwan Adhikari - Managing Director & Chief Executive Officer, LIC Housing Finance Limited
Yeah. Thank you. So thank you, friends. A lot of insightful questions. Yes, I know the concern is on margins and on growth, these two aspects. We are very well aware of that. As far as the growth is concerned, the disbursement has picked up in Q1 and we are optimistic that this trend will continue in Q2. As far as the margins are concerned, it's going to be challenging considering the fact that our segment is basically what the banks tread in, so we are basically competing with banks. So we need to continue to compete, keeping an eye on the margins we get or the spreads we get on our business. And the other thing is the diversification strategy which we are pushing hard, showing traction, showing green shoots. So these things, I believe, will help us in achieving our guidance of 2.6% on the NIM parameter which we have given. Q2 is going to be a good quarter, as of now, from what I see as of now. Q2 should be a good quarter for the company and should be a quarter which will help us accelerate our journey to achieving the guidance we have given to all of you.

Thank you. Thank you for your participation.

Lokesh Mundhra - Chief Financial Officer, LIC Housing Finance Limited
Yeah, just I want to supplement something more. So, you know, our disbursements started going in double digits and definitely this quarter is really great in terms of my PBT and PAT. And then my asset quality is also improving gradually and the return on assets for this quarter is again...

Operator
[Operator Closing Remarks]