"Indiabulls Housing Finance Limited Q4 2017 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Indiabulls Housing Finance Limited Q4 2017 Earnings Conference Call, hosted by UBS Securities India Private Limited. As a reminder, all participant lines will be in a listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ishan Kumar from UBS Securities. Thank you and over to you, sir.

Ishan Kumar: Good evening, everyone. And thank you for joining us today. I welcome the management team of Indiabulls Housing Finance. We have with us Mr. Gagan Banga – Vice Chairman & Managing Director, Mr. Ashwini Hooda – Deputy Managing Director, Mr. Sachin Chaudhary – Executive Director, Mr. Mukesh Garg – Chief Financial Officer, Mr. Pinank Shah – Head (Treasury) and Mr. Ramnath Shenoy – Executive Vice President (Investor Relations).

I now invite Mr. Banga to provide key highlight of results. Over to you, sir.

Gagan Banga: A very good day to all of you. And I welcome you to the fiscal 2016-2017 earnings call. This has been a very good year for Indiabulls Housing, marked by many key achievements. Our balance sheet crossed Rs. 1 trillion. We got included in the bellwether Nifty50 Index. We launched India's first digital e-home loans platform, which is already accounting for as much as 20% of our new home loan sourcing. At the end of fiscal 2017, 51% of our liabilities were coming from bonds, up from 38% in fiscal 2016. And pushing ahead with our focus on mid-income affordable housing, we expanded into Tier-II smart cities which are already accounting for 7% of our new home applications.

We grew strongly across all financial parameters. Our balance sheet at the end of the year stands at Rs. 1.04 trillion, up 36% over last year. Our total loan assets are at Rs. 913 billion, up 33% from Rs. 687 billion at the end of March 2016. Profit after tax for the year is at Rs. 29.06 billion, which is up 24% from last year. Across all financial parameters our growth in fiscal 2017 over fiscal 2016 has been stronger than that of fiscal 2016 over fiscal 2015. 36% balance sheet growth versus 34% in fiscal 2016, 33% loan assets growth versus 31% in fiscal 2016 and similarly 24% PAT growth versus 23% in fiscal 2016. This bails out our guidance released for the government's demonetization announcement where we had revised our growth targets upwards by between 1% and 3%.

Government agencies and regulators are coordinating policies and aligning fiscal incentives to further the government's headline socioeconomic objective 2022. After announcing on New Year the expansion of interest subsidies under Pradhan Mantri Awas Yojana, the detailed operational guidelines were notified in the second week of March 2017. Coverage under the housing has been expanded to mass-market mid-income housing for the first time. Households earning annually up to Rs. 1.8 million per annum, purchasing their first house of up to 1185 square feet, with no bar or cap on the value of the house are now eligible for an upfront subsidy of as much as Rs. 230,000 towards their home loan. In addition to this home loan, customers can also claim a deduction of as much as Rs. 400,000 from their taxable income against principle and interest components of home loan repayments. All factored in the house of Rs. 3 million purchased a building alone of about Rs. 2.4 million, roughly 70% loan to value, which is a squarely mass-market mid-income affordable housing product, which only costs a borrower today 0.42% over the loan tenure, or 42 basis points. With the PMAY subsidy and tax savings factored in, the mid-income home loan borrowers only have to pay Rs. 2.43 million against a Rs. 2.4 million home loan over the life of the loan.

While it is common in the west, for the first time in India the affordable home loan rate is significantly lower than the prevailing rental yields**.** Compared with an effective home loan rate of 0.42%, the average rental yields for the top 12 cities is 3.2%. this is a tremendous incentive to purchase a house and make home ownership a very affordable proposition and much cheaper than renting.

Our expansion into Tier-II smart cities is also going well. We now have 43 of these new branches which are working on our digital platform, are completely technology driven with online completion and transfer of the loan applications files for credit underwriting in a hub and spoke model. Smart city home loans grew to 7% of our incremental home loan applications. E-home loans have also been progressing ahead of our expectations, we continue to evolve the platform adding features and improving process efficiency on an ongoing basis. E-home loans now contribute to as much as 20% of our incremental home loan applications. In addition to increased customer convenience, enhancement in brand perception and increased thoroughness and efficiency of credit underwriting, the one large benefit is the cultural transformation of the company that is now more technology centered. This increased scale and technology deployment has resulted in improving cost efficiencies. Our cost to income for fiscal 2017 is down to 13.3% from 14.3% last year and 20% in the very recent fiscal 2011.

Now moving on to specific numbers, I will cover the key numbers again. We continue to remain on our guided path of profits with PAT of fiscal 2016 at Rs. 29.06 billion recording a growth of 24%. Quarter four PAT was Rs. 8.41 billion, which was a growth of 24.4%. I am also very pleased to announce that the board has approved an interim dividend of Rs. 9 per share. To reiterate our dividend policy is to pay 50% of profits as dividend. In the past when the HSE sector regulator reduced risk weights, we had increased our payouts to the present 9% per quarter, which is above our target 50% of profits level. By Q3 of this financial year our profits will be at a level where our dividend proposals to the board will start increasing from Rs. 9 per quarter and to track the profits thereafter.

Our loan book at the end of fiscal 2017 stood at Rs. 913.01 billion as compared to Rs. 686.83 billion at the end of fiscal 2016, which is a growth of approximately 33%. Our cash in liquid investments stood at Rs. 185 billion at the end of fiscal 2017. On the asset side, our asset mix at the end of fiscal 2017 split broadly into 56% home loans, 22% LAP and 22% of corporate mortgage loans. Our housing loan book has inched up to form 56% of total loan assets, up from 52% at the end of fiscal 2016. We remain on our trajectory to get to 66% of share of home loans within our total loan asset book by fiscal 2020.

Our top-line has registered a healthy growth with a revenue for fiscal 2017 at Rs. 117.02 billion, a growth of nearly 27%. The NII for fiscal 2017 stood at 47.68 billion, which is a growth of 25.7% over the previous year. NII in our case does not include fee and other charges. The NII for quarter four fiscal 2017 is at Rs. 13.60 billion as compared to quarter four of fiscal 2016 at Rs. 11.16 billion, which is a growth of approximately 22%.

In fiscal 2017, we disbursed a total of Rs354.82 billion, a growth of 34.6% over disbursals last year of 263.58 billion. In fiscal 2017, our disbursals are at Rs.182.44 billion for home loans, Rs.66.91 billion for LAP and Rs.105.47 billion for corporate mortgage loans. Disbursal for quarter four fiscal 2017 were at roughly Rs. 150 billion, breaking into Rs.64 billion for home loans, Rs. 20 billion for LAP and Rs.31 billion for commercial credit, besides one-time syndication type of arrangements for another Rs. 30 billion where we disbursed and got those assets refinanced within the quarter.

Our NPAs for over 22 quarters now have remained within a range of 0.7% to 0.9% as was guided in 2010. And net NPAs within a range of 30 basis points to 50 basis points, again which was a guidance given in fiscal 2010. As we continue to remain within this range, we had reported gross NPAs at 85 basis points and net NPAs at 36 basis points. In computing net NPAs, only provisions against substandard assets are deducted from the gross NPA. Standard asset provisions and counter cyclical provisions of over Rs. 7 billion are not deducted while computing net NPAs. We continue to be prudent in our provisioning approach and have provisions which are approximately 150% of our gross NPA, with excess provisions running at Rs. 3.74 billion. At the end of quarter four fiscal 2017, total substandard asset provisions were about Rs.5 billion, general provisions and specific provisions splitting almost equally. Floating provisions at Rs. 0.75 billion and standard provisions at Rs. 6.25 billion, totaling to Rs. 11.49 billion.

Our net leverage after deducting from total borrowings, cash and cash equivalents and liquid investments stood at 5.7 times.

On the borrowing side, which has been a super year for us, bank borrowings now form only 37% of our funding mix, down from 49% in March 2016. Capital markets sources along with ECBs and sell-downs have contributed to 96% of the incremental financing and our dependence on banks for growth of this year was only 4%. As highlighted earlier, 51% of our funding now comes from bonds, up from only 38% at the end of fiscal 2016.

Our spreads for quarter four fiscal 2017 expanded to Rs. 324 basis points on book basis, up from 318 basis points at the end of fiscal 2016. This is an increase, despite the perceived enhanced competition. The spread on an incremental basis is at 275 basis points, cost of funds on book basis was at 8.39% and dropped significantly as MCLR changes were passed on our stock of bank loans as well as on the sold down book. On an incremental basis the cost of funds is 7.83% for quarter four. Borrowing flexibility has ensured spread will sustain within the guided range of 300 basis points to 325 basis points on book and between 275 basis points and 300 basis points on incremental loans.

Now moving on to the balance sheet numbers, our net worth at the end of quarter four fiscal 2017 stood at Rs. 121.22 billion, up from Rs. 106.94 billion at the end of quarter four fiscal 2017, and Rs. 117.86 billion at the end of quarter three fiscal 2017. Total capital adequacy adjusted for investments in mutual funds stood at 21% at the end of quarter four with Tier-I at over 17%.

We continue to remain extremely excited with the opportunity in the housing finance sector. We have maintained in the past that macro is all important in sector such as us. With the mortgage to GDP penetration of all of 9%, effective interest rates prior to the subsidy having dropped to between 3% and 3.5% and after the Pradhan Mantri Awas Yojana the effective interest rates have dropped to 0.42%. And specifically, with a capital base of over Rs. 12,000 crores and unique technology platform which we have built, we are very, very optimistic about continuing to grow our profits by between 20% to 25% through fiscal 2017 and the book between 25% to 30%. So we reiterate our long-term guidance, which is book growth between 25% and 30% and growth across all other financial parameters between 20% and 25%.

With this, we also set up 2020 goals. We are very optimistic that by 2020 we will be able to grow our balance sheet to double from where we are to reach a Rs. 2 trillion mark with profits well above Rs. 5,500 crores. Off the balance sheet, approximately 66% will be home loans by 2020. And in order for us to be able to maintain our return on assets we will drive down cost to income ratios which are currently are at a little over 13%, down to single-digits. So to sum up, the 2020 goals are Rs. 2 trillion of balance sheet, over Rs. 5,500 crores of profit, 66% of home loans and single-digit cost to income ratio.

On this optimistic note, I would like to thank all of you for your continuing support. And we are now open to take questions from all of you. Thank you.

Management: Thank you very much. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Manish Ostwal from Nirmal Bank Securities. Please go ahead.

Manish Ostwal: My question is on; how do you see the LAP market in next couple of years? And specially in affordable segment the growth is much higher than the mid-segment to high-segment. So in affordable segment any specific strategy we are focusing on to grow the book?

Gagan Banga: So, I will handle the second question first. So, traditionally affordable was perceived to lending to economically weaker section for the lower income group. RBI over the last few years had been expanding the definition of affordable housing. And now across all relevant agencies, be it Reserve Bank of India, National Housing Bank, Government of India, specific departments within the Government of India, Ministry of Finance, Ministry of Urban Development, everyone has aligned and the subset of the policies that each of these departments or agencies have cover all the loans that Indiabulls Housing gives under the home loan program at an average ticket size of Rs. 2.4 million, with an average income level of roughly Rs. 1. Million annualized.

We have historically been slightly shy of reducing our ticket size to levels which will include the LIC or economically weaker section. We do more mid-income group lenders and the good thing is that with all of this the government has brought down the effective interest rate for the mid-income group. There are two parts in which the government has brought it down, first is the tax subsidies which itself bring down the effective interest rates to between 3% to 3.5% and thus there is convergence just by tax subsidies between the rental yield and the EMI. So, even if you were to take away the Pradhan Mantri Awas Yojana subsidy for a moment, even then there is a situation where your EMI cheque and your rent cheque are equal. And now with this Pradhan Mantri Awas Yojana, it is almost free to borrow at 42 basis points there is effectively no cost now. So we believe that in the mid-income group housing there is going to be a surge in demand. In our earnings update we have also put up data which is showing that a lot of developers now are looking to change tactics and focus more on bringing out affordable housing supply. So the hope that we have is that in the near-term there would be of demand of homes lead home loan growth which will be happening. The feel of the situation always is that if supply does not keep up then prices will start rising, and while yields may be interesting, absolute value of housing will remain unaffordable. As one speaks to a lot of these developers, and is also being reported with developers in NCR, in Mumbai, etc, talking of a few hundred or thousand crores of investment to develop their land banks. One is hopeful that there would be adequate supply coming into this. Anyways, these developers are continuing to witness a slowdown in the premium housing market which is continuing.

So all in all, with enhanced supply, with enhanced demand there is no reason why affordable housing would not continue to compound. And even demographically we are extremely well positioned. On the macro, as I mentioned earlier, with mortgage to GDP at 9% we are well positioned. So it is a good time for affordable housing and my sense is that specifically for Indiabulls housing for the home loan product we should be able to continue to grow it well above 30% as we look to grow our book between 25% to 30%.

On the LAP market, there have been different sets of concerns over the last year, year and a half. Earlier it was about heightened competition, then came demonetization and then there was a fear that the small business owners will land up defaulting because of the disruption in the cash economy. And then there was a fear that real-estate prices will collapse. We at Indiabulls kept on maintaining that for loans which are cash flow backed there should be very little disruption. We continue to give out monthly updates on how the portfolio has performed, here is another monthly and quarterly update in the earning update this time as well. But the more important thing is that the demonetization process is behind us and it turns out to be nearly a transitionary phase. I believe that the Indian small business owner is clearly entrepreneurial to be able to tackle situations as were thrown up by deep monetization. Also, the Reserve Bank of India in earlier this month in April, we have provided a link on this report in our earning update, has printed an update of the residence index in which they are clearly mentioning that real-estate prices have not really broken down as was being perceived, especially in the mass housing space. So, I would imagine that with demonetization as the formal economy will grow the demand for structural **credit** including lending from formal system is only going to go up. And as there is a specific lending approach that you need to take while lending to SMEs, with a 12 year track record on that we are uniquely positioned. We probably understand the SME segment better than anyone else, so I think for us the next couple of years around LAP and small business owner lending are going to be a very robust period of lending. We also strongly believe that GST would formalize the system further and that would also work to our advantage, especially in a scenario today where public sector banks from whom we are largely migrating these borrowers, most of these borrowers have existing working capital facilities, have their own continuing struggles. And we are fortunate that neither do we have a struggle around capital nor bad loans. So for us the playing field is quite open and we will take full advantage of this open playing field.

Manish Ostwal: Lastly sir, this real-estate regulator, the RERA impact on developer’s portfolio, because we are hearing that some of the developers impacting because of that on business side. So how do you see this development as a lender?

Gagan Banga: So, RERA is a very good development. In the past, we have spoke about this in such calls that regulatory bodies coming in, especially if the regulator is a strong capable regulator, generally evolves the sector much faster and better and it generally results in a lot of value being created in the sector on a medium-term to long-term basis. So, overall I am extremely optimistic about RERA.

As far as our commercial lending book is concerned, often our lending approach has even caused concerns because we have been speaking about having a concentrated book around a few lending relationships, around largest developers in the country, around 50, 60, 70 relationships only. And as we have gone about speaking with these borrowers, what one has realized that the real-estate developers have broken their projects into two buckets, one which have not received occupancy certificate and the others which have and they have all calculated their liabilities around it. None of the borrowers of Indiabulls housing have raised any red flag as far as any big cause of concern. But going forward, as I understand that since you cannot really touch 70% of the money that you raised from borrowers, the demand for construction finance is going to go up significantly. Fortunately, the regulation carves out forbearance for construction finance, both from Principal as well as interest servicing. So the take outs that I have for the next six to 12 months is that RERA again much like demonetization is actually going to increase demand for structured credit. And in that if one is in a position of being able to offer comparative rates, one will actually see a surge in demand as far as construction finance is concerned. As both a home loan provider as well as a construction finance provider, I am a lot more comforted if I know that the money which are being disbursed can be used only for specific purposes. And there are not only civil but criminal liabilities which will arise if the money is misused. So, I believe strongly that the portfolio quality will improve even further in due course of time, and therefore it is going to be, from a one, two, three year perspective it is going to be a very, very positive development, for us as well as for the overall sector.

Moderator: Thank you. We have the next question from the line of Deepak Sharma from Alliance Bernstein. Please go ahead.

Deepak Sharma: Sir, could you please give us the guidance for FY18, as to what will be the balance sheet size and the revenue increase, and what is the cost to income ratio guidance?

Gagan Banga: So, the balance sheet and the loan book will both grow between 25% to 30%, given the overall optimism that we have and also the growth numbers that we have been coming from. So, since 2015 we have been guiding for a book and balance sheet growth of between 25% to 30% at the higher end of the range. So, while we will continue to guide for the balance sheet and book growth between 25% to 30%, we will start the year very optimistically and hope that we end at the higher end of the guidance. Similarly, for profit and NII and all of that, we are hopeful of keeping that between 20% and 25%, specifically for profits we again hope to be at the more higher end of the range. So that is really where we are as far as guidance is concerned. On cost to income ratio, the target is to bring it down by roughly 70 basis points to 80 basis points and get it in the handle of 12.5%. If we continue with this decline by 2020, we should be able to bring it down to under 10% and get it in the single-digit range.

Deepak Sharma: Sir, how are the borrowing requirements during this year, are we looking to issue any bonds? And if you are willing to issue will it be an offshore bond?

Gagan Banga: So, as you may be aware that the Government of India and subsequently the Reserve Bank of India has also included affordable housing in the automatic ECB route. Some rules have been defined, some other rules will be defined very shortly. So now we can very shortly raise as much as $750 million through the ECB route and another $500 million through the masala bond route. We have a pretty good foundation on both, so we have approximately $500 million of ECBs outstanding in which we did a large new issuance and refinance of $350 million and got many Japanese, Taiwanese and other investors to look at our ECBs. We also had 25% institutions participate in our last masala bond offering. So on ECBs we will explore whether to do a offshore bond or a offshore loan structure. On masala bonds it is generally a bond which is a rupee-denominated bond, but we have opted the $1.2 billion which is permissible under both of these routes, we hope to get to at least $1 billion of overseas debt raise through both of these routes through the course of the year. Overall, we will have to borrow approximately Rs. 50,000 crores for the year, of this Rs. 50,000 crores we are hopeful that at least 70% to 75% will come from the markets and the balance will come from banks in one form or the other.

Deepak Sharma: Sir, there is a reduction in the total capital adequacy ratio, so what is the major reason for that sir?

Gagan Banga: As we were looking at getting passed a milestone of Rs. 1 trillion of balance sheet, we had slowed down the securitization this year. So as against our trend of securitizing almost 25% of our incremental loans we sold down only 19% of our incremental loans. So, next year onwards we should be back to consuming approximately 1.5% to 2% of capital every year and we will strive to keep it at about 1.5% of capital every year. Our capital should therefore be next year and the year after also be about 15% of Tier-I and 18% of overall capital adequacy.

Deepak Sharma: Sir, about the overseas funding, will it be more of US dollar bond or any currency?

Gagan Banga: No, it is very premature to say whether it will be a bond or a loan in the first place. Historically speaking, US dollar loans have been cheaper than bonds, so it will be a function of the pricing that we are being able to extract in the market. We have begun fiscal 2018 on a very good note as far as our borrowing program is concerned on a domestic basis. There are several new participants which have already come into the domestic bond borrowing program, so we will have to really take a call in due course of time as to which specific instrument and which currency and all of that, it is a matter after all of cost, so I cannot really say whether it will be a dollar bond or a Euro bond or a Yen bond. But yes, through the course of the year, through the offshore route we will look at raising about $1 billion.

Moderator: Thank you. We have the next question from the line of Viral Shah from Credit Suisse. Please go ahead.

Sunil Tirumalai: This is Sunil Tirumalai from Credit Suisse. Could you please reiterate the breakdown on the disbursements for the quarter and wanted to focus more specifically on the syndication participation that you mentioned, I mean, can you give some explanation as to what is the profile of the borrower and is this, I mean just want to understand what is happening there?

Gagan Banga: So, for the quarter we did about Rs. 6,000 crores of home loans, just under Rs. 2,000 crores of LAP of corporate mortgage loans. Generally, we have been realigning our emphasis going towards more and more lease rent discounting type of structure and as we do that there would be opportunities where we will get larger transactions of which we can hold only a small portion, we cannot hold the entire portion. So, we will do a larger deal with a back to back arrangement with a few banks and hold our portion and sell down the rest of it. So, these will be largely lease rent discounting transactions and these would-be opportunities which would generally come in quarter four as we are able to originate assets at a much faster pace, but we cannot hold all of those assets, so we will share some of those assets with some other private banks and public sector banks. So, these are such assets, these are not what we can do in normal course of lending, so this would not be generally a quarter one to quarter three opportunity. And as we look at participating more and more in lease rent discounting structures, the grade A developers tend to be larger structures, large buildings of which we can hold only a certain portion. So this would be an opportunity which will come once in a while.

Sunil Tirumalai: So this was about Rs. 5,000 crores, is that right?

Gagan Banga: Rs. 3,000 crores.

Sunil Tirumalai: Okay. The second question is, can you give a breakdown of the credit cost that flow through the P&L, write-offs and provisions, etc?

Gagan Banga: So, we had a tax break as some of you may have noticed in our detailed filings with the exchanges, we had a tax break on the deferred tax asset side of roughly a little over Rs. 100 crores, approximately Rs. 125 crores. We have chosen to provide additionally Rs. 125 crores this quarter. And as we have provided we have made total credit cost including write-off and provisions of Rs. 311 crores.

Sunil Tirumalai: And just the last question, you mentioned the incremental spread is about 275 basis points, so how do you see this number and obviously, this means that the overall reported spread which was at 324 basis points for the full year, that should keep trending downwards. Are you comfortable and it is also understandable if you are having a higher target for home loans, so three years from now, four years from now what kind of spreads do you see and I just want your outlook on that.

Gagan Banga: So, there will be two things which will always prevail, and this is again something that we have spoke about in the past. There would always be a 25 basis points to 50 basis points gap, and this is not only for us but it is true for the entire industry that you will generally onboard customers at a slightly lower rate to where your back book prevails. This is good for the largest state run bank, the largest private bank, the largest housing finance company and any large financial institution that I know of in India. So, we have been historically guiding that on book basis we will maintain spread of between 300 basis points to 325 basis points and on incremental basis between 275 basis points and 300 basis points. Peculiarly, this quarter we are at the higher end of the range as far as back book is concerned and the overall book is concerned and at the lower end of the range as far as incremental business is concerned. And that is because government securities add a very pretty peculiar movement through the course of the last four, five, six months. And these kind of peculiar movements will happen from time to time, so some times bond markets should be six months ahead, sometimes they will be six months behind, and such is the nature of markets. My sense is that as we look at over a period of one year or three years, as we look to increase our bond borrowing program, even today when I borrow from the bond markets as compared to the average rupee term loan that I raise, I land up raising it at an advantage of 50 basis points - 60 basis points, which at peak was atv100 basis points, today as banks rates have collapsed but bond rates have not collapsed as much, that spread is still on the positive side 50 basis points to 60 basis points. So, Indiabulls Housing is very peculiarly poised to its advantage that even if interest rates are to remain flat, if I have to go off to sleep as management, we will still bring down our borrowing cost by 50 basis points - 60 basis points if we are not to grow our home loan book at the pace that we are growing. So, if home loans have to grow at roughly 1% or so per quarter and are to go in the direction that by March 2020 we at 66% one is reasonably confident that our book spreads will remain around 300 basis points.

Sunil Tirumalai: Okay. And sir lastly, you have not spoken about an expected credit rating upgrade for some time. What is your current expectation now; I mean how are your conversations with the agencies proceeding? Thanks, that was my last question. Thank you.

Gagan Banga: Sunil, conversations are very positive. The environment which had been very negative for financial services given the very high credit cost that the system was reporting, there is clearly a diversion in quality of business between private and public sector and within private sector between some and some others. So, my sense is that, that whole practical crises which the system had gone through starting December '15 also, all through last year that is sort of coming down. Banks and financial institutions which had started reporting massive losses are not reporting losses. And the numbers are so much more well discovered. So, we all know what is the combination of restructured and SMA and all other schemes so what will potentially flow through and rating agencies also probably appreciated. The one big dramatic change which has happened as far as our specific sector is how the macro today is more favorable than it ever was. So, clearly is working to our advantage. And then, the fact that Indiabulls has been saying what it is going to do and then it has been for now 7 goods years been doing what it has said. So, with that, I think rating agencies are lot more optimistic about the macro which is always 70%-80% of such decisions. And they have been very confident about the micro of Indiabulls Housing anyways. So, I am very-very optimistic but it is not until it is done.

Moderator: Thank you. We have the next question from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just a quick data point, what would be the fee income for the quarter?

Gagan Banga: The fee income is approximately a Rs. 193 crores.

Rahul Ranade: Rs. 193 crores. And I just wanted to understand whether the slowdown in the banking system credit growth, how much of it affect you on the sell down of your loans basically the demand for the sell down?

Gagan Banga: So, there are two parts to my response to it and one is linked to the previous question of Sunil as well that as Indiabulls Housing has evolved and moved up the rating trajectory the big ask of a credit rating upgrade for us use to historically be that our bond should be (a) in the first place more widely accepted; (b) we should be able to bring down our spreads over certain benchmarks that we had established for ourselves, so as to be able to get long-term competitiveness. As we sit today, Indiabulls Housing as a credit is in the Mutual Fund system in the India the second largest exposure that they have after HDFC within the private financial space, we have all large state and private insurance companies subscribing meaningfully to our bonds and participating in each and every transaction of ours. We have all large Provident Funds including government run Provident Funds which at scale investing in our bonds, including large investments which have happened in this month. So, overall, the big objectives of having a Vibrant Bond Borrowing Program have already been achieved. Any further upgrade would obviously help us marginally on our cost of borrowing. So, we will continue to work towards it. But we are so much stronger today as far as our bond borrowing program is concerned with having crossed this benchmark of over 50% of our borrowings coming from the bond market route. And incrementally while having grown our balance sheet and loan book by over 30% depending on the banking system to the extent of only 4% on the term loan side and that brings me to a specific response to your question. As far as slowdown in banking is actually enhances the demand for securitized paper because as investors and analysts, you guys look at a lot of micro data. If you look at success RBI financial stability reports and look at the non-performing numbers for even housing loans they indicate in a number of roughly 170 basis points, which means that with 40% of the market which is housing finance companies reporting gross non-performing loans of between 70 basis points to a 100 basis points private banks being in the same ball park. There is a large part of the financial system which is running delinquencies within the housing loan portfolio of 300 basis points to 500 basis points. And with overall corporate credit growth not happening, they are announcing intent of growing their retail portfolio that running up large delinquencies and also being at a very large disadvantage as far as distribution is concerned securitization buying out portfolio becomes their preferred choice and that is what we continue to witness. The company had also to achieve its own smaller objectives and fortunately we had the capital to be able to achieve it in a hurry. So, we got forward getting to 1 trillion of balance sheet size is actually a 2018 target. So, we are running about one year ahead and we were able to do so. This was a minor adjustment that we did last year in our strategy. As far as demand is concerned, the demand is very-very robust and if credit growth remains as subdued that demand is only going to increase and increase materially. Even today, for the demand that we have, we do not have enough loan assets that we can potentially sell. So, whatever we will choose to sell, we will have more than enough demand for that.

Rahul Ranade: Sure. And all of the sell down basically qualifies as PSL, right?

Gagan Banga: No, that is not right. So, we sell down both priority sector as well as non-priority assets. What we really look at is, in the first instance the best pricing that we will get and then also we try and minimize the risk weights that we have to put on assets. So, it will be a combination of both priority as well as a non-priority assets.

Moderator: Thank you. We have the next question from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Sir, with respect to Oak North, so what is the capital employed at this point in time against the loan book of 280 odd**?**

Gagan Banga: So, they will have equity capital of around 150 million.

Kunal Shah: So, as highlighted in terms of next three years we need to take the overall loan book to 2.5 odd billion. So, will there be the need for further infusion of capital into this bank over next two years - three years?

Gagan Banga: Yeah, for sure. That bank has to stand on its own two feet and has been spoken about in our sheets the bank is doing exceedingly well. It has broken even roughly a year ahead of where it was supposed to breakeven which is also reflected in our income statement. From September onwards, we are making a small profit on that. They have done a very-very successful a recent raise at not only a 50% growth on the values that we had invested in but the quality of investors that have come in are as big as it gets. People who run $90 billion market cap companies are extremely solid investors who can stand by you for the longest. We have also stated at a 100 million U.S. our investment is capped as the bank gain size. Whatever were our objectives will get achieved. So, we are not going to participate in any further capital raise.

Kunal Shah: Okay. And in terms of this E-home loans which now contributes almost like say 20%. Do we see any benefit in terms of the cost around this? So, how does it impact the cost including everything?

Gagan Banga: Home loans will generally have operating expenses which will be in the range of 70 basis points - 80 basis points on book basis and for this particular portfolio that number will be exactly half or less than half. More importantly, the very-very small costs that come to us on the basis of either credit mistakes or frauds that creep in those will also further get reduced. So, if you want me to put it in number on a per loan basis we will land up saving anywhere between 40 basis points and 50 basis points as this product scales up which is a very meaningful saving of almost 10 basis points - 12 basis points on an annualized basis that we will have. So, it is a very material savings and that is the one that we are betting a lot on when we think of both of our initiatives of spreading our wings to Tier-II, Tier-III, Tier-IV cities without incurring massive capital as well as running expenses and the other is that we are also very hopeful that we should be able to take much more robust credit decisions. And in due course of time, so as to be able to get to these 2020 objective that I have communicated that the management team said earlier in the year it is very important that the brand moves and migrates to be perceived as the most convenient home loan provider in the country. And it is digital home loans the entire E-home loans platform which will continue to form our single biggest tool to be able to engineer this migration. And culturally as we continue to cater to and customer whose average age is continuously falling, culturally the company has to be so much more tech-enabled, so as to even be able to understand the customer, it has to be able to sit on top of technology and I am so proud to see old folks like me who are in their 40s talking about technology as if we were 20-year-old. So, it is a very-very happy migration which the company has gone through in the last one year - one and a half year that has been gone ahead. So, the biological age of Indiabulls Housing, thanks to this initiative is at least 15 years younger than what it was last year.

Kunal Shah: Yeah. And when we look at in terms of this new scheme for say Mid Income Affordable Housing, so how much would that be contributing to the overall disbursements? Any significant chunk?

Gagan Banga: The new scheme of Pradhan Mantri Awas Yojana.

Kunal Shah: Yeah. So, we have this Mid Income Affordable Housing…

Gagan Banga: Yeah, it is still very early. So, the scheme only got notified in mid-March and till 31st of March, we could not obviously swing numbers as far as this particular scheme is concerned. A large part of our business that we under took in the quarter of January to March would as a matter of coincidence we allowed, so borrowers who have taken loans between January to March would get benefits and we have already raised claims and on the claims that we have raised we have already received credits after February. So, the system continues to chug along well. My sense is that it is only towards the end of this quarter or the next quarter that we would start seeing meaningful trend and an upward trend as far as decision taking is concerned. What is very clear is that subsequent to demonetization there was a general sense that, because the media had made it up so much that prices will fall. And therefore, people who were becoming fence sitters, all of those fence sitters we see on the ground have return. So, business done in March over January was phenomenal. We have gone 35% to (+40%) over what the business that we did in October. So, it is back to normal. This quarter was as busy as any fourth quarter is supposed to be. And by quarter two of fiscal 2018, you will start seeing results of Pradhan Mantri Awas Yojana and sometimes towards mid of calendar 2018 you will also start seeing large announcements. So, right now it is more intent where developer will say we also want to look at affordable housing. But you will start seeing large project launches in the middle of 2018 because it takes roughly 6 months to 12 months to secure permission. So, that is going to be the trend. So, if are to ask me the number in October that is the time that I will have a separate statistic for you that under Pradhan Mantri Awas Yojana we were able to disburse so much of our business and you will visibly see new affordable housing launches by September - October or July - August of 2018.

Kunal Shah: Okay. And sir, lastly in terms of if you can give the segment wise may be incremental as well as the book yield which are there across may be home loan, LAP and all other….

Gagan Banga: Yeah. So, on an incremental basis home loans got just under 9%, 8.98%; LAP got us 11.25% and commercial loan got us roughly 12%. On book basis, the yields in home loans are at 9.7%; LAP at 13.5% and commercial loan at just under 14%.

Moderator: Thank you. We have the next question from the line of Mohit Mangal from CRISIL. Please go ahead.

Mohit Mangal: Si, I just wanted to know the guidance for the credit cost and NPL both gross and net for financial year 2018?

Gagan Banga: So, credit cost would be 60 basis points and 70 basis points. Even this year, if we are to take the one-off gain that we had on tax breaks, it was between 60 basis points and 70 basis points. So, there are two principles that we will run this with. So, in normal course of business we will provide between 60 basis points to 70 basis points to continue our provision cover over loss NPAs and take that overall provisions cover higher and the other is that any one-offs on the basis of some treasury gains or on the basis of any tax break or anything of this sort, we will in ideal world look to plough that back into taking more provisions. So, the guidance is for 60 basis points to 70 basis points of credit cost.

Mohit Mangal: Okay. And sir, in terms of NPL both gross and net.

Gagan Banga: So, our long-term guidance is that we will operate between 70 basis points and 90 basis points gross and 30 basis points to 50 basis points of net. We are at 85 basis points and 36 basis points and we should remain in this ballpark as we have in the last two years - three years. So, the guidance will be (+/-2) basis points for gross NPAs and (+/-2) basis points for net NPAs from where they are right now.

Moderator: Thank you. We have the next question from the line of Jonathan Du Toit from Truffle Management. Please go ahead.

Jonathan du Toit: If I could just ask, most of my questions have been answered. So, your capital adequacy is now 20.9 and your net leverage ratio is 5.7, with those gross targets for 2020 firstly, do you think

Indiabulls is going to needed to raise additional capital and when do you think that could occur?

Gagan Banga: So, we are well-capitalized as I look at these numbers at least for the next two financial years and obviously that is on the basis of some growth assumptions. So, at a book growth level of 25% to 30% and assuming that we should be able to securitize between 20% and 25% of our incremental loans, we are good to go for the next two years. We are also in a phase where the country is headed towards an unprecedented situation where it is today significantly cheaper to own as against rent a house. We are not capable of being able to comprehend the strengths of the momentum that this situation can bring out. It is the first time that it has happened in independent India. So, if there is a case where one can grow without diluting credit standards at a pace which is faster that is the only case where we will need capital before two year. You may notice that we hardly have any Tier-II capital at 3% and we see a reasonably high level of demand for our Tier-II capital, so that is something that we can always look to expand. In the past, we have operated between 400 basis points to 450 basis points of Tier-II capital, so that is an additional leverage, so one is reasonably comfortable as far as capital position is concerned assuming that we will be growing around 30% and the spread assets for at least the next two years.

Jonathan du Toit: Okay. And just for clarity, in your mind you do not want to go below 15% Tier-I capital ratio?

Gagan Banga: Yeah, we would want to be around Tier-I of 15%.

Moderator: Thank you. We have the next question from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

Vikas Garg: Just on the liquidity policy of the company when we look at the balance sheet and of course, it gives a lot of comfort that you have 18% of cash and cash equivalents, how do you look at this number going forward when you are moving from may be 55% - 56% of housing loans to 66% housing loan by couple of years. So on a more steady state basis there is cash equivalents which you have on the balance sheet will come down or will stay at similar levels? Thank you.

Gagan Banga: Yeah. So, the long-term liquidity policy of the company is 20% of loan book that is what we maintained. So, we have loan assets of roughly Rs. 90,000 crores and 20% of that is a little over Rs. 18,000 crores which is what we have. In the short-term to medium-term we will continue to stick to this policy. Our belief is that it is not the nature of assets which determines the liquidity policy; it is the way that we are financed, the way that India is still structured on the debt market side. We as a country and as a market tend to get locked-up from time-to-time. And in the past, Indiabulls Housing thanks to this policy has been able to use every such lock-up to its great advantage, as we become larger we also have to look at structural stability in a very different manner. And with whatever calculations that we have done under whatever simulation of various liquidity coverage ratios this number does not seem to be materially coming down. So, in our scheme of things when we are looking at growing the retail part of our business around 30% and you cannot switch that engine off ever and also the fact that our overall borrowings will continue to grow through the course of next two years, my sense is that for the stake of stability as well as for getting strategic advantage from time-to-time with this rule of 20% of our loan book in the form of cash. If there is any material development such as corporate bonds being included in repo in some sort of lines being extended to housing finance companies in much greater depth emerging in bond markets one can possibly alter this course. None of these things seem to be happening in the short-term to medium-term. So, in the short-term to medium-term our rule will be 20% of loan book.

Vikas Garg: Just for the records. You do not have to maintain such a huge liquidity on your because of your business mix. Like for example for the construction finance where there could be a large ticket size deal coming at any given point in time and also, at the same time there would be a lot of repayment coming at any given point in time from both the construction finance business and also the LRD. So, because of the nature of your business mix, you do not have to maintain that kind of liquidity and it is more of a prudent measure that you have for this policy.

Gagan Banga: So, on the asset side, the only thing which requires you to maintain healthy liquidity and not such large sums of liquidity is the fact that the retail part of our business which is the predominant part of our business is a distribution franchise which you create over an extended period of time and any disruption in that franchise causes long-term damage. So, therefore, to continue to build on the franchise which we have toiled so hard over, we do not ever wish to be in a situation which we are switching off our disbursement engine because we are short of cash. As far as the bigger loans are concerned you can always time them and those are handful of relationships. I do not see high quality builders in India going from a number of 60 - 70 to 200, we already cover I would say 90% of the high quality developers in India and having built meaningful relationships with them one is extremely comfortable of being able to calibrate disbursements in an extreme stress situation. What one needs to do on the asset side is to be the last man standing to continue to disburse even when others have shut shop. We followed that practice through 2008, 2010 and 2013 and it has helped us to accelerate the process of materially building on the distribution channel. So, that is how we think of the asset side. This whole piece is only so much impacted by the asset side, it is also about the liability side. As I mentioned in the past, a large amount of gains both in terms of acceptance of our bonds as well as yield shrinkage that we had to do after we were upgraded to AAA by two rating agencies in 2014 we have been able to achieve largely because of how we manage our liquidity. So, this as a principle is very-very dear to us.

Moderator: Thank you. We have the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.

Nishchint Chawathe: I just wanted to get a sense on the share of bank loans what you said is that bank borrowings are at 37% and you are looking to reduce it quarter-on-quarter. So, what is the kind of broad through process up to what level would you willing to drop it down and especially in the context of the fact that you will want to keep the cash at around 20% of the balance sheet?

Gagan Banga: So, over a period of time, the borrowing program would evolve to 60% bonds ECBs, etc., 20% to 25% bank borrowing and 20ish percent of securitization, between bank borrowings and securitization, we are roughly at 47% right now. Over a period of time that will drop to 40% and that 7% - 8% will go towards our bonds and ECBs. So, that whole migration will be in the three years and the big jump and the big disbelief was that how will 38% in the end of fiscal 2016 get to 60% by end of fiscal 2020 as we had originally spoken about. We have done the big part of moving that needle already. So, over the course of next few years we can calibrate our bond issuance and bring down our spreads over benchmarks rather than just relying on the bond market. Yet, we will be able to achieve the downward movement in the bank and bank-type borrowings. So, 47 will by 2020 will go to 40% and 51% which is bonds will go to 60%.

Nishchint Chawathe: Sure. And for the 40% what you are saying is that the 20% cash is sufficient, you do not need to really change that.

Gagan Banga: Yeah. So, none of the instruments that Indiabulls Housing borrows from be it bank term loans or bonds are in a recallable structure, whatever term they are contracted for that term stays. So, this 20% is not a function of whether we are borrowing in structure A or structure B. It is function of how much is the maturity in the year which will be roughly one-fifth of our borrowing will mature in a year and then we will have to grow. So as to be able to honor our commitments around the one-fifth as well as to be able to grow the large part of the growth that we have to do because it comes from retail, it is a combination of that and roughly a 125% of that we keep on our books.

Moderator: Thank you. We have the next question from the line of Ashwin Balasubramanian from HSBC Asset Management. Please go ahead.

Ashwin Balasubramanian: In response to your previous question, you had mentioned that incrementally yield in LAP will be around 11.2 and the book yield would be around 13.5. So, that works out to about 200 bps - 225 bps in terms of the difference. So, just wanted to understand that I assume LAP is a floating rate product in your book. So, given that this sort of a high differential like would it be sustainable for a considerable period of time?

Gagan Banga: LAP book is a very sticky book given the fact that unlike home loans where there is no prepayment penalties, there are massive prepayment penalties of 3% to 5% in LAP book. And therefore, in a situation where interest rates are falling the average age of the LAP book actually does not change materially but the average age of the home loan book can potentially come down, if you are not continuously repricing your back book as well. So, in the case of home loans the gap would be a lot lesser because you have to continuously repricing your back book in order to not allow a net outflow. As well as LAP customers are concerned, you can be a lot more sticky. On a more sustainable basis, you will have roughly 150 basis points to 175 basis points, gap in a scenario like today where interest rates are anyway down 150 basis points okay 175 basis points, the balance 50 basis points or so you can say is situational largely because there are prepayment penalties, ig would not otherwise sustain.

Ashwin Balasubramanian: So this 3% to 5% prepayment penalty which you talked about that will be a industry standard or your penalty would be slightly higher than like the system?

Gagan Banga: Apart from one industry player who tried it as an entry level strategy and realized that it was a faulty strategy, I do not know where they are right now as far as strategy is concerned but everybody else including the private banks as well as all other leading loan against property players would all be in the 3% to 5% space. My colleagues tell me that even that income band is at 4% now.

Moderator: Sure. We will take our last question from the line of Avinash Singh from Jefferies. Please go ahead.

Avinash Singh: In terms of your loan growth, I mean in a core housing the data like there was a media article saying that rates are at all time low in Mumbai. Similarly, like channel checks in NCR suggest that the housing market is weak. I mean, how you are growing to grow this core housing loans share particularly in the next two quarter - three quarters from where the growth is going to come from?

Gagan Banga: So, a large part of the market like Mumbai would have premium housing numbers contributing to registration and as we have spoken on many times in the past and there is enough and more industry data out there now that affordable housing is actually growing at a pace which is between 30% and 35% and it is not only growing for us, it is growing across housing finance companies and private banks. Whereas, premium housing is not growing, it is actually declining in terms of sales and as a result the average number could be marginally higher or lower. We are a mass housing player. Our average ticket size is Rs. 2.4 million and in that segment, so for example, in Mumbai that number will be slightly higher and will be closer to Rs. 4 million. That segment in Mumbai which is segment of Virar, Vasai, Dombivali, all of that continues to register a (+30%) growth in the context of Mumbai today if you were to sell in apartment of as much as up to Rs. 2 crores it will sell in no time. Anything above that especially above Rs. 3 crores the market is extremely sluggish which is why one is hopeful that as developers are faced with the situation and I said the same in my opening remarks as well that as developers are faced with the situation where premium housing remain continues to remain sluggish whereas mass housing continuous to be robust both on price as well as sales volume they would continue to alter their plans especially given the fact that government has also given massive tax incentives to developers where let us say in location like Thane or Virar or Vasai they have to build a 600 square foot carpet apartment they do not have to pay any corporate tax on such a development. So, mass housing is robust. mass housing will continue to be robust that market is actually growing at a pace which is very similar to our pace of growth and if you are to review our Earning update, we have put out a lot of data around, at the pace of which both mass housing, as well as commercial leasing which is always a good lead indicator of mass housing is growing. So, where sales statistics are if you were to process them for premium housing I think, sales statistics they are extremely strong and they actually make a very-very good and robust case of extremely strong momentum in mass housing and therefore, home loans for players such as us.

Thank you everyone for sparing so much of time for this call and for constantly supporting us. As I said, during my remarks that the company is extremely optimistic of growth, we strongly believe that the macro is more favorable for Indiabulls Housing and for the entire housing sector than it has ever been. And therefore, we are very hopeful of being able to continue to grow in a high quality robust manner. The growth will come without dilution of any credit standards and it would be led largely by a very robust technology platform. And 2018 has begun on a very-very optimistic note and I am hopeful that as we move forward, we will surely achieve our objectives of compounding our earnings between 20% and 25%. But more importantly the company is well set on a path of growth which will get us to Rs. 2 trillion and much like demonetization we have at our end we believe we have thought through RERA, we have thought through GST, and we have thought through IndAS and when I say earning will get to over Rs. 5,500 crores by 2020 this is after having read that all and read though the rules of all three GST, RERA and IndAS to the extent that they have been notified and all of these would be opportunities for a player like us. So, on that note, I would like to thank you again and see you next quarter.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of UBS Securities India Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.