“Indiabulls Housing Finance Limited Q2 FY’15 Earnings Conference Call”

October 27, 2014

MANAGEMENT:	**MR. GAGAN BANGA – CHIEF EXECUTIVE OFFICER, INDIABULLS HOUSING FINANCE LIMITED** **MR. ASHWINI KUMAR HOODA – DEPUTY MANAGING DIRECTOR, INDIABULLS HOUSING FINANCE LIMITED** **MR. PINANK SHAH – HEAD TREASURY, INDIABULLS HOUSING FINANCE LIMITED** **MR. RAMNATH SHENOY – SENIOR VICE PRESIDENT, INVESTOR RELATIONS - INDIABULLS HOUSING FINANCE LIMITED**
MODERATOR:	**MR. ISHANK KUMAR – ANALYST, UBS SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Indiabulls Housing Finance Limited Q2 FY-'15 Earnings Conference Call hosted by UBS Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Ishank Kumar of UBS Securities. Thank you. And over to you, Mr. Kumar.

Ishank Kumar: Good Evening everyone and thank you for joining us today. I would like to welcome the management team of Indiabulls Housing Finance. We have with us Mr. Gagan Banga – Chief Executive Officer; Mr. Ashwini Kumar Hooda – Deputy Managing Director; Mr. Pinank Shah – Head Treasury; and Mr. Ramnath Shenoy – Senior Vice President, Investor Relations. I now invite Mr. Banga to provide key highlights of results. Over to you sir.

Gagan Banga: A Very Good Day to all of you and welcome to the Indiabulls Housing Finance Half Yearly FY-'15 Result Announcement. The first half of the year has been extremely positive for Indiabulls Housing Finance. We have been upgraded to the highest long term credit rating of 'AAA'. In the first half of the year, all four credit rating agencies that we had long term ratings from upgraded us by a notch. In upgrading, the rating agencies sighted and in a way independently verified and reiterated the key principles that we run our business on, which is tight control over asset quality, robust capitalization levels, comfortable liquidity and diversified resource profile which are very healthy operational indicators and also they have emphasized the very extremely important indicator of profitability which is extremely important to all of us. We now have AAA rating from CARE and Brickwork and AA+ rating from CRISIL which is a Standard & Poor's company, ICRA which is a Moody's associate company, and we also have initiated a short term rating from India Ratings which is a new relationship; India Ratings is a Fitch Group company.

We are probably only the Second Financial Services Company in the private space which today has a AA+ from both CRISIL and ICRA and AAA from CARE, and this is helping us get great traction in our bond program, both in terms of pools of liquidity being available as well as the cost of these bonds being driven down, I will discuss this in greater detail later in the call.

This being the stated objective that we have to get to AAA, we had also indicated to all of you that we would be looking at strengthening the board of directors. Even the shareholders had approved it a few months ago, Dr. Chakraborty has formally come on board, Justice Nijjar who is the retired Supreme Court judge as well as Justice VP Singh who is also a retired Supreme Court judge has also come on board, Mrs. Manjari Kakkar, a former member of CBDT has also been inducted besides Brig. Sitara who is a Dhyan Chand awardee by the President of India and is helping us run the entire CSR initiative which is now extremely large, Mr. Ahlawat who is a retired senior banker and Mr. Prem Prakash Mirdha who is a businessman is also helping us understand the SME segment which is important for us from a self-employed lending perspective. These constitute the board of our directors besides the executive directors which is Sameer Gehlaut – the Chairman, Mr. Mittal from RBI, Ashwini and myself.

Over the past 21 quarters, IBHFL has consistently delivered on all key parameters. Our single product focus especially Home Loans to the Salaried segment continues to payoff in an otherwise pretty stretched credit environment. We have stuck to our guidance on all financial and operating parameters. We have also been able to maintain our earnings momentum and crucially our credit quality as our Lending segment comprises largely of Salaried customers who are purchasing their first home with a substantial contribution from own sources.

I will now move on to more specific numbers: For H1 FY-'15 we paid out a total dividend of Rs.17 per share, amounting to 850% and this has resulted in a total dividend outflow of approximately Rs.691 crores. We had to pay out the dividend slightly more than estimated as well as slightly ahead of time given the additional dividend distribution tax which was kicking in from 1st October. We continue to stick to our overall dividend payout policy of 50% of profits. Net worth has climbed to about Rs.6,120 crores which makes us one of the best capitalized housing finance company. And as per our internal projections we are fine as far as capital adequacy is concerned for at least the next 3 to 4-years and have no requirement to go back to the capital markets to raise fresh equity. Our loan assets have increased to Rs.45027 crores from Rs.42014 crores at the end of Q1 FY-'15. PAT has increased to Rs.872 crores which is a growth of 21% year-on-year. PAT for Q2 is at Rs.448 crores which is also a growth of 21% year-on-year. AUM has grown by about 18.1% year-on-year. Disbursals have grown by about 21% to Rs.4,800 crores. Revenues have climbed by about 16% to Rs.1,706 crores. Fee income has increased to Rs.89 crores from Rs.66.6 crores. NII has grown at about Rs.737 crores. As the company continues to lever up more, NII would grow at a pace which is a tad slower to overall book growth. Our spreads have remained stable at about 340 basis points on book basis.

As had been shared with all of you, the company over the last six quarters has been emphasizing more on retail assets as against Corporate Loan assets. Retail mortgage assets have increased to 76% and on an incremental basis we have been generating 310 basis points of spread. From end August early September, we have started growing the Corporate book again and I believe that for the full year we should have the Corporate book growing more or less in line with the overall book growth, and on an incremental basis margins climbing from 310 basis points to about 325 to 330 basis points.

On the borrowing side, 92% of our borrowings are long term in nature in the form of bank loans and bonds. Bonds on the back of our improved credit ratings have contributed to 52% of incremental borrowing in the last 12 months. We continue to believe in maintaining very strong liquidity position and had Rs.7,141 crores of cash and cash equivalents invested in liquid debt instruments. Net leverage is moderate at about 5.7x and we are extremely competitively placed on both capital adequacy as well as net leverage when compared to our peers. The provision position of the company continues to remain extremely strong. At the end of H1 our total substandard provisions were Rs.228 crores, of which general provisions were

Rs.137 crores, specific provisions of Rs.92 crores. We have increased the floating provision pool to about Rs.50 crores and overall standard provisions are at Rs.307 crores, totaling to a provision pool of Rs.586 crores which is a 153.5% of our gross NPL. Asset quality has remained stabled at 85 and 34 basis points, well within the guided range of 70 to 90 basis points for gross NPL and 30 to 50 basis points of net NPL.

It is important to know that this range was guided over 3-years ago and while the credit environment has stayed extended and has been bad for most lenders, the predictability of our portfolio and how the performance would be is coming through very-very clearly in how the portfolio performance has panned out.

We continue to remain optimistic about the growth guidance given for profit. So we believe that we will be operating in the guided range of 20% to 25%. We also expect the spreads to remain stable between 325 to 340 basis points. Interestingly, we have paid out close to about Rs.58 of dividend in the last 24 months, of which Rs.33 has been paid out in the last 12-months. The book value as of 30th September stands at Rs.170. Adjusted for the dividend payout the book value would have been Rs.228.50. The company, as I had mentioned earlier, would continue with a pay out of about 50% of profit and we continue to believe that we are well capitalized and in a position to still grow our book at about 20% without causing any further dilution or going back to the markets. So, net-net pretty stable and strong quarter, with good gains on the Corporate governance side, as well as on the rating side, and credit performance continues to remain stable and we are well positioned to continue to grow and stick to our range of over 20% growth on profits. Thank you, that is all from my side and I am happy to take questions along with my team.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use only handsets while asking a question. The first question is from the line of Rohan Juneja from Seawolf Capital. Please go ahead.

Rohan Juneja: Hi, Gagan. I may have missed this in your commentary, can you just tell me how big do you expect the Corporate book to be and what rate of growth do you think you are going to grow that over the next 12 to 18 months please?

Gagan Banga: Right now, the Corporate book is 21% and the Commercial Vehicles book which is in run-off mode is about 3%. I believe that over a period of time the long-term average between Retail Mortgage and Corporate book will be 75-25, 100 basis points here or there. And the overall book growth one expects to be able to achieve about 20%, so, Corporate Loan book should be growing at give or take 20% for the next 12-18 months and slowly as the **(CVPs) 12:40** runs off it should inch closer to 25%.

Rohan Juneja: One follow-up, in your margin guidance, which is 325 basis points now, is that largely because of the Corporate book growing or do you have some amount of rate reduction in there as well over the next 12 months?

Gagan Banga: I have not factored in any macro rate reduction, so I have not really factored in repo or base rate reduction happening, but one is certainly optimistic about being able to continue on the trajectory of the bond program reducing rate. We have already seen an advantage of about 30 basis points on the bond program coming in and one expects another 30 basis points which would mean that that would have 10-12 basis points impact on cost of funds over a period of time. So that is one thing which I have assumed and the other is that the Corporate Loan book should not be growing 5% slower than overall book, it should be growing at pace off book. So given both of these assumptions on an incremental basis, we should be at about 325 basis points and on a book basis we should continue to remain at about 340 basis points.

Moderator: Thank you. The next question is from the line of Vikesh Gandhi from Bank of America. Please go ahead.

Vikesh Gandhi: Just had a few questions; one is can you give us the breakup of disbursements, Rs.4800 crores which was I believe for the quarter, right?

Gagan Banga: Yes, we had close to about Rs.2750 crores of Home Loans, about Rs.1700 crores of LAP and Rs.430 crores of Commercial Credit.

Vikesh Gandhi: Also, the breakup on the provisioning done in this quarter?

Gagan Banga: We have a total credit cost of approximately Rs.37 crores, of which write-offs are of about Rs.9 crores, sub-standard and specific provisions are of about Rs.24 crores and Rs.5 crores have been added to the floating provision pool.

Vikesh Gandhi: On the Fee side, just wanted to get some understanding. Basically, a couple of quarters back you had changed this income from investments flow into the other income versus the top line. So what would that number be now for this quarter and the comparable quarter last year?

Gagan Banga: The comparable number last quarter was Rs.101 crores which was net of taxes and there was a tax deduction of about 20%, so it was Rs.125 crores or so, which is now at about Rs.167 crores.

Vikesh Gandhi: So, this Rs.125 crores is for first quarter?

Gagan Banga: Was for same quarter last year.

Vikesh Gandhi: This is outside of any other fee income that you earn, right?

Gagan Banga: Yes, this is strictly from investments in liquid schemes of mutual funds….

Vikesh Gandhi: Which flows now into the other income line?

Gagan Banga: Yes, the other income line is Rs.187 crores, of which there is Rs.167 crores from mutual funds, bad debt recovery of Rs.15 crores and other capital gains from CDs, etc., of Rs.5 crores.

Vikesh Gandhi: What about the loan processing fee that you make from any kind of lending, where does that go in?

Gagan Banga: Fee income would come in other operating income, which is Rs.80 crores.

Vikesh Gandhi: That number was Rs.66 crores last year?

Gagan Banga: Total gross fees for this quarter was Rs.89.9 crores, and then from that sourcing fee paid out to DSS, etc., get netted off, so the net number is about Rs.80 crores, of this Rs.89.9 crores, that is close to about Rs.40 crores of processing fee, about Insurance income of around Rs.25 crores and prepayment of the balance, which is another Rs.25 crores.

Vikesh Gandhi: What would be the bad debts recovered for the same period last year?

Gagan Banga: For the same period last year bad debt recovery was Rs.20 crores.

Vikesh Gandhi: You also said something like Rs.5 odd crores which is what for this quarter?

Gagan Banga: We also invest in CDs. So basis the CD investment, that also comes as capital gain. So basis how much of outstanding stock is there, there would be capital gains which would get booked. So this time our investment in CDs was less and therefore the income was Rs.5 crores, comparable quarter last year was Rs.20 crores.

Vikesh Gandhi: If I get all this correctly put together, if I exclude whatever you make from lending, which is your NII, interest income minus interest expense, on the other income side, I will just repeat it, you have Rs.167 crores which is your income from mutual fund investments, comparable number last year was Rs.125 crores, Rs.80 crores is the fee for which you gave the breakup, comparable number was roughly Rs.60 odd crores and then you have another Rs.15 crores of bad debt recovery this quarter and Rs.5 crores of capital gains, against which you had Rs.40 crores; 20-20 each for last year, right?

Gagan Banga: That is correct.

Vikesh Gandhi: What is your target for the Loan growth?

Gagan Banga: Target for loan growth will be about 19-20%, we have done about 18%, I think we will manage to get very close to 20% if not that touch that.

Moderator: Thank you. The next question is from the line of Jonathan du Toit from Truffle Asset Management. Please go ahead.

Jonathan du Toit: Just a concern on two things; on any further warrants that are outstanding?

Gagan Banga: I think there are about 6 odd million warrants which are not yet converted from the lot which was issued in 2010 to investors, I believe the balance has been converted, I could be wrong by half a million or so.

Jonathan du Toit: Using that form of financing in the future, do you see yourself issuing further warrants, any…?

Gagan Banga: No, this was done when we had just started our bond program and we were looking at doing the first large scale bond issuance. So, we have done an issuance of approximately $300 odd million and to get large institutions interested we had done a bond-cum-warrant issuance and the likes of UTI, ICICI Bank, Axis Bank, Reliance, etc., had all invested, and in due course of time those warrants have come in money and have therefore been converted. But ever since that time none of our bond offerings have had bundled warrant to it and I do not think that we need to do that anymore, our bond program is vibrant enough to stand on its own feet.

Jonathan du Toit: On the consolidated interest, there is a line item #20 which is exceeding 10% of total expenses based on this donation expenses of 2100 lakh, can you give more detail on that line item?

Gagan Banga: This is per the new Companies Act, 2% of our profits to go into Corporate Social Responsibility activity. So we have given details of what Indiabulls foundation has been up to in the 'Earnings Update' which is up on Bloomberg, on our website and has also been, I suppose, e-mailed to you, and this donation has been made as part of our CSR program as per the Companies Act requirement to our foundation.

Moderator: Thank you. The next question is from the line of Sneha Kothari from Subhkam Ventures. Please go ahead.

Sneha Kothari: Sir, currently, we are having a leverage of gearing the issue of 5x, our capital adequacy is near to 19%. Why we cannot grow more than 25% to 30% range in terms of the loan growth?

Gagan Banga: We cannot grow more than 20% to 25% because the company has a principle that the asset/liability maturity has to be ensured at all times, so that is one rule. The other is that we have to borrow efficiently from a cost of funds perspective, therefore the supply of our paper in the market has to be regulated. And the third very important principle is that we have **(Inaudible) 24:11** a certain amount of our loan book in the form of **(Inaudible)** assets that also increases the overall cash requirement of the business. Given these three rules that we have set for ourselves, these act as constraining factors on the overall growth, and therefore one has to grow the liability book by a certain percentage. So I would say that while asset demand is there and we can easily grow by 25% to 30% on a longer term average basis, we guide for 20% to 25% because we do not want to break all of these principles on the liability side. Now, if tomorrow the interest rate environment is to change dramatically for the economy and suddenly there are a lot of bond investors, I would look at growing the asset book at a pace which is slightly faster. Similarly, if new pools of capital are to open up for us, which we expect that because of the AAA rating, a lot of government pools of capital will open up over the course of the next few months, the stability that they provide in the form of long-term monies which is a ten-year type of money would also be very helpful. But, all of that has to first materialize before we press the accelerator further. On an 'as-is-where-is' basis, I am confident of being able to grow at this pace of 20% to 25% and not breach any of these principles.

Sneha Kothari In terms of the borrowing mix, any plans to change?

Gagan Banga We would on a going forward basis rely incrementally on bonds. I think that would continue to remain the most active source of financing for us. We would always keep the option of both bank term loans as well as sell-downs; sell-down in the second half picks up, in the first half, we have done a sell down of approximately Rs.1,000 crores, in the second half, we should be doing significantly more. So, both of those are options, but on an ongoing basis, I think bonds would continue to be the biggest source of financing and bonds are approximately 33% to 34% right now, they should inch up to about 40% of our liabilities in the next year, year-and-a-half.

Sneha Kothari How much is the current outstanding of the zero coupon bonds in our book?

Gagan Banga It will be just under Rs.2000 crores.

Sneha Kothari What about the branch expansion plan?

Gagan Banga We had said at the start of the year that we will grow by about 20-odd branches, we have grown by 9 in the first half, we should grow by 20 for the full year.

Sneha Kothari Any changes in the dividend pay out or would be continuing in the same range?

Gagan Banga No, the long term policy is 50%. As I said because of changes in dividend distribution tax, we had both preponed as well as increase the amount marginally, but on a longer term basis, the policy of the company is to pay out 50% of profits out as dividend, in the second half, we would come back to that policy.

Moderator Thank you very much. The next question is from the line of Chandan Gehlot from Deutsche bank. Please go ahead.

Chandan Gehlot Hi sir, just wanted to know, what is the current status of one of the funding to the project, Palais Royale?

Gagan Banga Palais Royale continues to sell apartments. It got pretty significant relief in the form of BMC changing its guidelines close to about 3 months. I would say 65% to 70% of its problems are solved. There is residual 30% problem which can only get solved through the courts, the matter is lined up in the Supreme Court and Supreme Court has to decide on it over the course of the next few months, but clarification in BMC guidelines has solved most of its problems, and the contentious FSI portion has been restored to at least 70% extent, as a result, he has been selling 2 to 3 apartments a quarter and has been servicing the loan. So, the loan is fine and once Supreme Court rules, he should be back to completing the building, the civil structure is anyways ready.

Chandan Gehlot Our exposure is Rs.350 crores, is it?

Gagan Banga The total exposure is more in the range of about Rs.600 crores, I can come back to you on the very exact number.

Chandan Gehlot What is your capital adequacy at the end of this first half year?

Gagan Banga Adjusted for mutual fund investments which attract risk weights. If one is to assume that we would not place mutual fund investments in the end of the year, we are at about 18.5%.

Moderator Thank you very much. The next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla First, I would like to get a sense of your approach to the extent of liquidity that you carry on your balance sheet. How do you approach it and is it likely to change given the abundant liquidity and low interest environment that we are likely to be in over the next few quarters?

Gagan Banga Abundant liquidity and low interest rate environment are more advantageous on the asset side. As far as principles of business, this is a self-imposed SLR and we will not want to dilute that. So, we have been maintaining over Rs.7,000 crores of cash. We are internally at the board level looking at whether we should be receiving 20% of loan book discipline or should we be now moving in a more evolutionary manner to see strictly what the next 6 months of liabilities are and book growth is, and then on that basis keep a certain stock pile. But those are things which we will, a) keep you updated on before we make any significant move, b) I can assure you that this number is not going to come down in the near future, it will keep on increasing and this is something which has come in extremely handy whenever the markets have gotten locked in 2008, in 2010 and similarly last year, the last year lockup was even worse than the 2008 and 2010 lockup. My sense is that it has helped us get credit ratings to the level that they are at, rating agencies acknowledge this and this is the principle that we would like to maintain. As more a stated rule, we may keep evolving, and as the balance sheet keeps evolving, balance sheet is now at about Rs.50,000 crores. So, we have to only become more risk-sensitive rather than dropping down our guards.

Manish Shukla Next question is on your LAP book. Roughly, what would be the mix of Residential and Commercial property?

Gagan Banga 95% Residential, 5% Commercial.

Manish Shukla Are you seeing any increased competitive intensity in the segment that you get to do for the LAP, because, these days we listen to every bank or NBFC that we talk to everybody is thinking of doing LAP?

Gagan Banga Within 95%, I would say in other 95% is Self-Occupied Residential property which is a unique to something that we do. I will just give the phone to my colleague, Ashwini, who is the Deputy Managing Director to explain more on how we conduct our LAP business as against some of our peers.

Ashwini Kumar Clearly, we are focused on Self-Occupied Residential properties in our LAP business and it is surely income-driven business that we do. So, it will have to be from the disclosed financial statements that it has to be is eligibility. So, it is a purely cash flow backed business model that we follow. On your questions on the intensity of business, while a lot of market participants have entered the LAP business and everyone is underwriting their set of properties because this is a very wide connotation "loan against property". But having said that, the whole market has exploded in terms of size. Clearly, this is a whole business of LAP is nothing but replacement of bank lines in some sense, SME borrowing from banks. So, clearly, the product offers a long tenor as well as a little lower rate than the average rate at which SMEs get banked today. So, clearly the product has caught on, and if you look it, we believe that in the last 3 years, the growth has been something like 40% CAGR, and today, we will almost be something like Rs.6,000 crores or Rs.7,000 crores a month kind of a market from Rs.3,000 to Rs.4,000 crores that it used to be 2 years back. So, while there are more players addressing the market, the pie is growing at phenomenal range, so we do not really see ourselves missing any of our growth target. In fact, this quarter has been extremely good on these SME business and while interest rates have come down, because of competition so as the cost of funding especially for us, an incremental 30 basis points of spread contraction is there, which is helping us mitigate any kind of pressure on our leads in this business.

Manish Shukla What would be the indicative yield on your LAP book?

Ashwini Kumar: So, incrementally the business gets done at 13.5% while the book will have almost 14.9% yield.

Manish Shukla Lastly, what is the size of the LAP book?

Ashwini Kumar LAP would now be around Rs.12,000 crores.

Moderator Thank you very much. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah Firstly, taking forward the last question, so in terms breakup in the Home Loan, how would be the category between say the Salaried category and say the Self-Employed category if you have to look at it?

Gagan Banga 70% is salaried and 30% is self employed.

Kunal Shah Any change in terms of disbursements when we look at it, say the proportion of disbursements which is moving towards the Self-Employed category. So, are we seeing say they gain traction over the last 2 to 3 quarters out there in the Self Employed or it is almost like stable?

Gagan Banga We are intentionally keeping it stable. We can do a lot more in Self Employed, but that is again something that we are constraining ourselves on. So, broadly the mix is that, we will have about 50% of Home Loans which is further split 70-30% between Salaried and Self Employed, 25% on LAP and in due course of time as the fee book runs off and we start emphasizing on Corporate Loan book again, Corporate Loan book would inch up from 21% to 23,24,25% and Retail book will be about 75%.

Kunal Shah Within this Retail you are saying 50% would be Home Loan, 25% LAP?

Gagan Banga That is correct.

Kunal Shah And within Home Loan, 70-30 portion? In terms of the disbursements, do you actually share the number of disbursements?

Gagan Banga We did, I will just say, we disbursed a little over Rs.4,800 crores for the quarter.

Moderator Thank you. The next question is from the line of Rita Tahilramani from Edelweiss. Please go ahead.

Rita Tahilramani Actually, missed on to the gross NPA numbers. Sir, can you please tell me?

Gagan Banga It is as steady at 85 basis points.

Rita Tahilramani And the net NPA?

Gagan Banga 5 basis points and 34 basis points.

Rita Tahilramani How much would be the cost of fund?

Gagan Banga It is about 9.9%.

Rita Tahilramani Sir, because no foreclosure charges on the Individual Loans, so are you not facing a problem on this particular scenario?

Gagan Banga Home Loans are anyways not attracting any foreclosure charges for over 2 years. For both LAP as well as Corporate Loans there are corporates which is non-individuals who are on the structure. Clarify that ever there is an non-individual on the structure, prepayment charges apply.

Moderator Thank you. The next question is from the line of Aditya Singhania from Enam Holdings. Please go ahead.

Aditya Singhania Gagan, exquisite check on the disbursement number, there seems to be a significant pickup this quarter both on the LAP as well as Individual Home Loans. Is there some seasonality or is there some sort of secular pick up in disbursements?

Gagan Banga There is a bit of seasonality, Diwali was a little bit earlier and monsoon was a little lesser. So, both of those contributed to a little bit of pickup towards the month of September. But, I would say that pickup would be about Rs.300-400 crores. We should for the second half be disbursing comfortably between Rs.9000 and Rs.10,000 crores.

Aditya Singhania If I could just understand on a monthly basis, Home Loans seem to be now doing about almost Rs.1000 crores a month versus about Rs.600 or Rs.700 crores last year same time?

Gagan Banga Because we have done Rs.2,750 crores of Home Loans which is about just over Rs.900 crores, this number would increase to about Rs.1100 crores for the second half.

Aditya Singhania The same number was about Rs.600 odd crores last year around this time?

Gagan Banga Around Rs.1830 crores of Home Loans, so you are right, Rs.600 crores something we have done last year.

Aditya Singhania You are saying a bit of this is seasonality but we are seeing underlying growth of 30% to 40% Y-o-Y, you are saying?

Gagan Banga We have no option. On the asset side, I have always maintained that asset demand is not a problem, it is liability. So it is a function of how we want to adjust between the categories of options that we have. We know what we have to gross and net grow our book by. Within that, given the emphasis of the company, so, the emphasis was Retail, we grew Retail a little more than Corporate. If we have to grow Corporate a little more then we can press the accelerator less for Retail. But I think overall, given where we are, the liability side remains, we should be doing about at least Rs.1,000 crores a month of Home loans.

Aditya Singhania So you are saying the pick up was driven partly by the better rating which helped you?

Gagan Banga It was driven largely by the fact that we were not growing Corporate book but we had overall liability cover of being able to grow at the pace that we have grown which is Rs.4,000 crores odd for the first half. For the second half, we want to grow between Rs.5,500 crores and Rs.6,000 crores and for that we will continue to emphasize on Home Loans, etc., but whatever is the shortfall would be coming from the Corporate Loans side.

Aditya Singhania Just on the securitization side, you still seem to be getting (+3%) spreads. How do you see that in the second half and beyond?

Gagan Banga In the range of Rs.330 to Rs.340.

Aditya Singhania Could we just understand a little more detail who are the investors here and you seem to be getting much higher spreads than other originators, so, how are you getting these spreads and how do you see them sustaining?

Gagan Banga I would believe that other originators would get even I have pledged because if they are selling down on priority sector basis, then their yields would be significantly higher. So, their spreads in my view would be more like 8-9% as against 3% that we have. On non-priority basis, it is largely LAP which gets sold out, which gets booked at about 13.5% to 14% and that is sold down at base rate, that is generating a spread of around 350-360 basis points.

Aditya Singhania So, what you are selling is a mix of LAP and Individual?

Gagan Banga LAP and priority sector Home Loans.

Moderator Thank you very much. The next question is a follow-up question from the line of Chandan Gehlot from Deutsche Bank. Please go ahead.

Chandan Gehlot Sir, will it possible for you to share the gross NPA number for your Corporate Loan book?

Gagan Banga The gross NPA number for the large loan book is at Rs.170 crores.

Moderator Thank you. The next question is from the line of Sunesh Khanna from Motilal Oswal Securities. Please go ahead.

Sunesh Khanna Just wanted to check, tax rate still remains low at around 20.7% for the first half. So, what is the reason for this and what is likely to be the full year tax rate?

Gagan Banga The full year tax rate will be between 20.5% and 21%. When we have changed the mutual fund income reporting line from income from operations to other income, we had said that we are doing this because we were able to generate capital losses. Thanks to the various options available by mutual funds at that time and we would continue to offset those by generating capital gain. The result of this is that we are operating at a lower tax rate. So, in normal course, we should have been at 25%, 26% where other housing finance companies are because of the large liquidity pool. We have been able to get this additional 4%, 5%. I think that at least for the next year-and-a-half or so, we have the ammunition of being able to be around at this tax rate.

Moderator Thank you. The next question is a follow-up question from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah I just wanted to understand the location strategy. Going forward how do we look to penetrate and today when we look at it in terms of the concentration, how much would be the top 3 to 4 cities contributing in the overall Loan book?

Gagan Banga At our size, we are a reflection of how real estate transactions by value happen. So, I would say the top 5 markets would be contributing almost 40%, top 10 would be contributing almost 65% and this would be true for any large lender whose average ticket size would be broadly similar to ours. As far as the location is concerned, today in terms of locational spread, we cover by value over 90% of transactions of real estate happening in the country. So, we would continue to grow our branch network by about 10% to 12% every year. Of that 10% to 12% growth, almost 60% to 70% of that growth would be in cities where we are already present and the balance 40% would be in new cities. So, whatever 20 odd branches that we will open for the full year, I would say about 15, 16 be in the existing locations and 5 to 6 new cities will be added.

Moderator We have the last question from the Subhankar Ojha from SKS Capital and Research. Please go ahead.

Subhankar Ojha I just have a couple of questions; one on your dividend policy, I know you talked about that in past and in this call earlier as well, you have fairly aggressive dividend policy and you have also been increasing the quarterly dividends the last 7 quarters. So, how far is that sustainable and at some point will we not face capital requirement to raise funds, can you just address that quickly if possible?

Gagan Banga Today, we are at over 18.5% of capital adequacy with a gearing of only about 5.7x. If you look at where our peers are or where the regulatory requirement is, peers are generally in the range 8 to 12x gearing and the regulatory requirement is 12% of overall capital adequacy. So, we are well short of where our peer group gearing rate is. Also, if we are to look at the return on equity of some well managed and very efficient housing finance companies, their co-return on equity, net of investments etc., is well north of 35%. Our return on equity is in the range of 27% to 28%. So, if we are following the discipline of everything else, then we may as well have a dividend policy which is similar and also target similar return on equity. We have no ambition of making large scale investments in any subsidiaries at least for the next 4 to 5 years. So, our return on equity as a corporate has to go up to those levels. For that a lot has to happen – cost-income ratios have to come down, overall operating efficiency in the business has to continue to increase, credit ratings are where they are and they will continue to move up and therefore cost of funds would come down. So, as we move in line with everything else and the rest seems to be falling in place, I think dividend payout policy of about 50% is reasonably sustainable. The market in general has to appreciate that even if we were to continue giving you the same guidance of 20% to 25% growth and for a minute if we were to extrapolate even in FY'17, we will be at a capital adequacy ratio of around 17%, 17.5%, of which almost 14.5% would be for Tier-1. In this environment, we would much rather curtail the growth of book value per share as I shared earlier in my commentary. We paid out almost Rs.58 as dividend and that would continue to be our policy and we would rather much focus on making sure that as a return on equity company, we are comparable to the very best in the country.

Subhankar Ojha Quickly, any comments on the promoter shareholding post the restructuring, is there any promoter currently comfortable with the current holding or are there any plans to?

Gagan Banga Promoters have purchased 1.75 crores shares. There is only one promoter now and his share holding has gone up to almost 28%. He is showing more confidence than anybody else in continuously upping his shareholding and that would be the trajectory. We have also made an allocation earlier this month of Employee Stock Options of 1.05 crores option and all the employees are extremely excited on exercising these options over the course of the next 5 years. So, internally everyone is showing the maximum possible optimism, and given the co-shareholders of the company who have been with us for the past many-many years, some of whom may also be in this call. I am sure that as far as control, etc., is concerned, there is no issue.

Thank you, everyone. Please feel free to send us an e-mail or contact us through our Investor Relations team. We are happy to answer your questions and thank you all for your support. As I said earlier, this has been a very-very exciting half year. It is an extremely important milestone to be AAA-rated and I am proud that with your support and guidance, we have been able to get to this and I can only assure you that, we would continue to work hard to make sure that we stick to our guidance of over 20% growth and profits for all the stakeholders. Thank you so much.

Moderator Thank you. Ladies and Gentlemen, on behalf of UBS Securities, that concludes the conference call. Thank you for joining us. You may now disconnect your lines.